



# REPORT TO COUNCIL

## City of Sacramento

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915 I Street, Sacramento, CA 95814-2604  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

Staff  
June 22, 2010

Honorable Mayor and  
Members of the City Council

**Title:** Authorize Issuance of Tax and Revenue Anticipation Notes

**Location/Council District:** Citywide

**Recommendation:** 1) Adopt a **Resolution** authorizing the issuance and sale of the City of Sacramento 2010 Tax and Revenue Anticipation Notes ("TRANS") in an amount not to exceed \$50 million, approving the official statement relating to such notes, and authorizing other actions, including the execution of a note purchase agreement and an agreement for bond counsel services; and 2) adopt a **Resolution** authorizing the City Treasurer and the Finance Director to make temporary cash transfers between unrestricted City funds during fiscal year 2010/11 and to establish and implement the necessary financial transactions, budgets, and appropriations after final pricing and sale of the TRANS as needed to carry out the terms and intent of the financing in accordance with the law and City policy.

**Contact:** Janelle Gray, (916) 808-8296

**Presenters:** Russell T. Fehr, City Treasurer

**Departments:** City Manager / City Treasurer

**Division:** Finance / Debt

**Organization No:** 05001011

**Description/Analysis:**

**Issue:** Since fiscal year 2009-10, there have been periods where the cash balance in the General Fund is negative. This occurs even though the General Fund begins and ends a fiscal year with a positive cash balance. In December 2009, for example, the cash deficit was approximately \$32 million. This situation has arisen because of the extensive use of one-time funding sources (reserves and other sources) over a five-year period, thereby depleting the operating capital and reserves necessary to carry the General Fund through the revenue "dry periods."

During fiscal year 2009-10 budget deliberations, the City Treasurer and the Finance Director sought authorization to meet cash-flow needs through inter-fund transfers in accordance with City Charter section 113 and to repay the transfers before the close of fiscal year 2009-10 (Resolution No. 2009-376). At that time, staff also noted that without sufficient cash reserves this deficit condition would likely occur again during the “dry period” in fiscal year 2010-11.

Based on the fiscal year 2010-11 budget proposal and cash-flow projections, the deficit in the General Fund during fiscal year 2010-11 is projected to be in excess of \$32 million. Although the cash-flow needs of the General Fund in fiscal year 2009-10 were managed with internal cash resources, staff recommends that the City cover the projected deficit in the General Fund during fiscal year 2010-11 by issuing short-term notes in the form of TRANS.

**Policy Considerations:** The City needs to borrow cash because the projected balances in the General Fund will not be sufficient to meet the City’s cash-flow requirements throughout fiscal year 2010-11. One way to do this is an inter-fund loan under section 113 of the City Charter, as was done in fiscal year 2009-10. Another way, followed by the State of California, most counties, and many cities (including the City in 1995), is to meet immediate cash-flow needs by issuing short-term notes like the proposed TRANS. With prolonged financial pressures, staff anticipates the need for cash flow borrowings during the revenue “dry periods” will be needed for several years. The cash flow needs of the General Fund argue for increasing, rather than using, remaining General Fund Reserves.

As noted in the City Treasurer’s April 27, 2010, Report on Investments, Cash, and Debt, staff recommends that such short-term borrowings be accomplished through the issuance of short-term notes like the TRANS, supplemented by internal resources if necessary. The recommendation of a short-term cash borrowing should be distinguished from the City Treasurer’s recommendation, in the same April 27, 2010, report, that the City not issue any City-backed General Fund long-term debt for several years, given the deteriorating state of the economy and continuing financial pressures on the General Fund and many of our business enterprise funds.

**Environmental Considerations: California Environmental Quality Act (CEQA):** This action is not subject to the CEQA because it is not a “project” as defined in section 15378 of the CEQA Guidelines.

**Sustainability Considerations:** None

**Commission/Committee Action:** None.

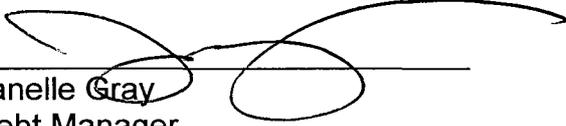
**Rationale for Recommendation:** The City needs to maintain a positive cash balance in the General Fund during the entire fiscal year. The issuance of TRANS will provide the funds needed to maintain a positive cash balance to meet the objectives of the City’s proactive cash-management program. By issuing TRANS, moreover, the City will acquire valuable experience in accessing the short-term markets and be better able to

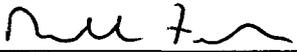
manage cash flow efficiently. Borrowing through TRANS is also projected to have a lower cost than internal borrowings.

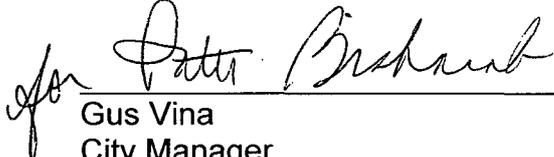
**Financial Considerations:** Based on the proposed fiscal year 2010-11 budget, the projected cash flow indicates a negative cash balance in the General Fund of \$32 million. To ensure that adequate resources are on hand, staff recommends that the City issue TRANS to generate \$40 million in net proceeds. Interest will be earned on the borrowed funds before they are spent, thereby reducing the overall cost of borrowing so that the overall cost of issuing TRANS will be lower than the cost of internal borrowing. The actual costs will not be known until the notes are sold.

Repayment set asides are tentatively structured to occur in January, April, and May 2011, with a single principal repayment in June; based on market conditions at the time of sale, however, the Treasurer may elect to modify this structure to best meet the needs of City and market conditions.

**Emerging Small Business Development (ESBD):** Not Applicable

Respectfully Submitted by:   
Janelle Gray  
Debt Manager

Recommendation Approved:  
  
\_\_\_\_\_  
Russell T. Fehr  
City Treasurer

Recommendation Approved:  
  
\_\_\_\_\_  
Gus Vina  
City Manager

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**Attachments**

1	Resolution – Authorize Notes Attachment - Exhibit A	pg. 5 pg. 15
2	Resolution – Authorize Financial Transactions	pg. 19
3	Bond Documents – Although not yet formally “Approved as to Form,” these documents have been reviewed by the City Attorney’s Office, are in substantially final form, and will be executed after the TRANS are priced and appropriate updates completed:	
	A. Fiscal Agent Agreement	pg. 21
	B. Official Statement Appendix A	pg. 28 pg. 59
	C. Note Purchase Agreement	pg. 87
	D. Continuing Disclosure Certificate	pg. 100
4	Presentation Slides	pg. 104

## **RESOLUTION NO. 2010-\_\_\_\_\_**

Adopted by the Sacramento City Council

### **PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2010-11 AND THE ISSUANCE AND SALE OF THE CITY OF SACRAMENTO 2010 TAX AND REVENUE ANTICIPATION NOTES AND APPROVING THE OFFICIAL STATEMENT RELATING TO SUCH NOTES AND AUTHORIZING THE EXECUTION OF A NOTE PURCHASE AGREEMENT FOR SUCH NOTES AND AUTHORIZING OTHER ACTIONS IN CONNECTION THEREWITH**

#### **BACKGROUND:**

- A.** Pursuant to Sections 53850 to 53858, both inclusive, of the California Government Code (the "Government Code"), being Article 7.6, Chapter 4, Part 1, Division 2, Title 5 of the Government Code, and based upon staff reports, budget deliberations and other matters presented to it, the City Council (the "City Council") of the City of Sacramento (the "City") believes that the sum of not to exceed fifty million dollars (\$50,000,000) is needed for the requirements of the City to satisfy obligations payable from the City's General Fund (the "General Fund") during Fiscal Year 2010-11, and that it is necessary that the City borrow this sum by the issuance of temporary notes in anticipation of the receipt of taxes, income, revenue, cash receipts and other moneys of the City to be received for or accrued to the General Fund during Fiscal Year 2010-11.
- B.** The City intends to borrow the sum of not to exceed fifty million dollars (\$50,000,000) for the purposes set forth in this resolution by the issuance and sale of the Notes (as defined in Section 2 below).
- C.** The sum of fifty million dollars (\$50,000,000), when added to the interest payable thereon, does not exceed eighty-five percent (85%) of the estimated amount of the uncollected taxes, income, revenue, cash receipts and other moneys of the City to be received for or accrued to the General Fund during Fiscal Year 2010-11 and available for the payment of the interest on and principal of the Notes.
- D.** No money has previously been borrowed by the City through the issuance of any temporary notes in anticipation of the receipt of, or payable or secured by, any taxes, income, revenue, cash receipts or other moneys of the City to be received for or accrued to the General Fund during Fiscal Year 2010-11.
- E.** Pursuant to Section 53856 of the Government Code, certain taxes, income, revenue, cash receipts and other moneys of the City which will be received for or accrued to the General Fund during Fiscal Year 2010-11 can be pledged for the payment of the interest on and principal of the Notes.

- F. The sale of the Notes shall be accomplished by a negotiated sale to Stone & Youngberg LLC (the "Underwriter").

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:**

**Section 1.** The City Council finds and determines that the statements in the Background are true.

**Section 2.** For the purpose of anticipating taxes, income, revenue, cash receipts and other moneys of the City to be received for or accrued to the General Fund during Fiscal Year 2010-11, the City shall borrow a not to exceed aggregate principal amount of fifty million dollars (\$50,000,000) by the issuance of temporary notes under Sections 53850 and following of the Government Code designated as the "City of Sacramento 2010 Tax and Revenue Anticipation Notes" (the "Notes"). The Notes shall be issued in fully registered form in denominations of five thousand dollars (\$5,000) or any integral multiple thereof and shall be dated the date of original issuance thereof, as determined by the Treasurer of the City (the "Treasurer") and provided for in the Note Purchase Agreement for the Notes as described in Section 11 of this resolution. The Notes shall mature (without option of prior redemption) on such date or dates as shall be determined by the Treasurer and provided for in the Note Purchase Agreement for the Notes as described in Section 11 of this resolution, which date or dates shall not be later than the date which is thirteen months after the date of original issuance of the Notes. The Notes shall bear interest from their date of original issuance (computed on the basis of a 360-day year of twelve 30-day months) payable at the maturity of the Notes and, if the Treasurer determines that any of the Notes shall mature later than one year from the date of original issuance thereof, on a date or dates not later than the date that is one year from the date of original issuance thereof (which interest payment date or dates shall be determined by the Treasurer and provided for in the Note Purchase Agreement for the Notes as described in Section 11 of this resolution), at the rate or rates determined at the time of the sale thereof. Both the principal of the Notes and interest due on the Notes at maturity shall be payable in lawful money of the United States of America, only to the registered owners of the Notes upon surrender thereof at the corporate trust office of U.S. Bank National Association, as initial fiscal agent for the Notes (the "Fiscal Agent") in St. Paul, Minnesota upon the maturity thereof. No interest shall be payable on any Note for any period after maturity during which the registered owner thereof fails to properly present such Note for payment. At any time after the sale of the Notes, the Treasurer and the City Clerk of the City (the "City Clerk") shall execute the Notes for issuance hereunder and shall deliver them to the Fiscal Agent, and thereupon such Notes shall be authenticated and delivered by the Fiscal Agent to the purchaser thereof upon the written request of the City and upon receipt of payment therefor from the purchaser thereof.

**Section 3.** (A) The Depository Trust Company, New York, New York, is hereby appointed depository for the Notes. The Depository Trust Company shall act as depository pursuant to the Blanket Issuer Letter of Representations on file with the Treasurer and the Fiscal Agent. The Notes shall be initially issued and registered in the

name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York and shall be evidenced by a single Note for each maturity bearing interest at a particular per annum rate of interest. Registered ownership of each Note, or any portion thereof, may not thereafter be transferred except as set forth in Section 3(B).

(B) The Notes shall be initially issued and registered as provided in subsection (A) of this Section 3. Registered ownership of the Notes, or any portions thereof, may not thereafter be transferred except:

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

(ii) to any Substitute Depository not objected to by the Fiscal Agent, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) determination by the Fiscal Agent to substitute another depository for The Depository Trust Company (or its successor) because The Depository Trust Company (or its successor) is no longer able to carry out its functions as depository; provided that any Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided in Section 3(C) below, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Fiscal Agent to discontinue using The Depository Trust Company or a depository.

(C) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (B) of this Section 3, upon receipt of all outstanding Notes by the Fiscal Agent (together, in the case of a successor fiscal agent appointed by the City pursuant to Section 12 hereof, with a written request of the Fiscal Agent to the successor fiscal agent designating the Substitute Depository), new Notes, which the City shall prepare or cause to be prepared, shall be executed and delivered, registered in the name of any such successor to Cede & Co. or such Substitute Depository, or their respective nominees, as the case may be, all as specified by the Fiscal Agent or, in the case of a successor fiscal agent appointed by the City pursuant to Section 12 hereof, as specified in the written request of the Fiscal Agent. In the case of any transfer pursuant to clause (iii) of subsection (B) of this Section 3, upon receipt of all outstanding Notes by the Fiscal Agent (together, in the case of a successor fiscal agent appointed by the City pursuant to Section 12 hereof, with a written request of the Fiscal Agent to the successor fiscal agent), new Notes, which the City shall prepare or cause to be prepared, shall be executed and delivered in such denominations and registered in the names of such persons as specified by the Fiscal Agent or, in the case of a successor fiscal agent appointed by the City pursuant to Section 12 hereof, as are requested in the written request of the Fiscal Agent, subject to the limitations of this Section 3, provided that the Fiscal Agent shall deliver such new Notes as soon as practicable.

(D) The City and the Fiscal Agent shall be entitled to treat the person in whose name any Note is registered as the owner thereof for all purposes of this resolution and for purposes of payment of principal of and interest on such Note, notwithstanding any notice to the contrary received by the Fiscal Agent or the City; and the City and the Fiscal Agent shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Notes. Neither the City nor the Fiscal Agent shall have any responsibility or obligation, legal or otherwise, to any beneficial owners or to any other party, including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the owner of any Notes, and the Fiscal Agent may rely conclusively on its records as to the identity of the owners of the Notes.

(E) Notwithstanding any other provision of this resolution, and so long as all outstanding Notes are registered in the name of Cede & Co. or its registered assigns, the City and the Fiscal Agent shall cooperate with Cede & Co. or its registered assigns, as sole registered owner, in effecting payment of the principal of and interest on the Notes by arranging for payment in such manner that funds for such payments are properly identified and are made available on the date they are due all in accordance with the Blanket Issuer Letter of Representations, the provisions of which the Fiscal Agent may rely upon to implement the foregoing procedures notwithstanding any inconsistent provisions herein.

(F) In the case of any transfer pursuant to clause (iii) of subsection (B) of this Section 3, any Note may, in accordance with its terms, be transferred or exchanged for a like aggregate principal amount in authorized denominations, upon the books required to be kept by the Fiscal Agent pursuant to the provisions hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Note for cancellation, and, in the case of a transfer, accompanied by delivery of a written instrument of transfer, duly executed and in a form approved by the Fiscal Agent.

Whenever any Note is surrendered for transfer or exchange, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Note or Notes of authorized denominations, for a like aggregate principal amount. The Fiscal Agent shall require the owner requesting the transfer or exchange to pay any tax or other governmental charge required to be paid with respect to the transfer or exchange.

(G) The Fiscal Agent will keep or cause to be kept sufficient books for the registration and transfer of the Notes, which shall at all times be open to inspection by the City upon reasonable prior notice to the Fiscal Agent. Upon the presentation of a Note for registration or transfer, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the books required to be kept by it pursuant to this paragraph, such Note as hereinbefore provided.

(H) If any Note becomes mutilated, the City, at the expense of the owner of the Note, shall execute, and the Fiscal Agent shall thereupon authenticate and deliver a new Note, tenor and number in exchange and substitution for the Note so mutilated, but only

upon surrender to the Fiscal Agent of the Note so mutilated. Every mutilated Note so surrendered to the Fiscal Agent shall be cancelled by it and delivered to, or upon the order of, the City. If any Note is lost, destroyed or stolen, evidence of the loss, destruction or theft may be submitted to the City and the Fiscal Agent and, if the evidence is satisfactory to both and if indemnity satisfactory to them is given, the City, at the expense of the owner, shall execute, and the Fiscal Agent shall thereupon authenticate and deliver a new Note, tenor and number in lieu of and in substitution for the Note so lost, destroyed or stolen (or if a lost, destroyed or stolen Note has matured or is about to mature, instead of issuing a substitute Note, the Fiscal Agent may pay the same without surrender thereof). The Fiscal Agent may require payment by the registered owner of a Note of a sum not exceeding the actual cost of preparing each new Note issued pursuant to this paragraph and of the expenses that may be incurred by the City and the Fiscal Agent. Any Note issued under these provisions in lieu of any Note alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Note so alleged to be lost, destroyed or stolen is enforceable by anyone at any time, and shall be entitled to the benefits of this resolution with all other Notes secured by this resolution.

All Notes surrendered for payment or registration of transfer, if surrendered to any person other than the Fiscal Agent, shall be delivered to the Fiscal Agent and shall be promptly cancelled by it. The City may at any time deliver to the Fiscal Agent for cancellation any Notes previously authenticated and delivered hereunder which the City may have acquired in any manner whatsoever, and all Notes so delivered shall promptly be cancelled by the Fiscal Agent. No Note shall be authenticated in lieu of or in exchange for any Notes cancelled as provided herein, except as expressly permitted hereunder. All cancelled Notes held by the Fiscal Agent shall be disposed of as directed by the City.

**Section 4.** The Notes shall be issued without coupons and shall be substantially in the form set forth in Exhibit A attached to this resolution and by reference incorporated in this resolution, the blanks in the form to be filled in with appropriate words and figures before the execution, authentication and delivery of the Notes.

**Section 5.** There is hereby established a separate fund in the General Fund for the purpose of insuring the application of the proceeds received from the sale of the Notes for the purpose specified in Section 2 of this resolution for which the Notes are to be issued, which separate fund is hereby designated the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Note Fund" (the "Note Fund"). The Treasurer shall, immediately upon receiving the proceeds of the sale of the Notes (net of the amount deposited with the Fiscal Agent in the Cost of Issuance Fund established pursuant to the Fiscal Agent Agreement referred to in Section 12 below), place in the Note Fund all amounts representing such proceeds received from the sale of the Notes. All amounts held in the Note Fund (and the accounts therein) shall be invested as permitted by Section 53601 and Section 53601.1 of the Government Code, and the proceeds of such investments shall be retained in the Note Fund.

Amounts in the Note Fund shall be withdrawn and expended by the City for any purpose for which the City is authorized to expend funds from the General Fund, but only after exhausting funds otherwise available for such purposes (which are not restricted funds) and only to the extent that on any given day such other funds are not then available; provided, that if on the date that is six (6) months from the date of original issuance of the Notes, by treating as unavailable amounts that otherwise would be available amounts but that are held or set aside in a reasonable working capital reserve not exceeding the amount set forth in the Tax Certificate executed by the City in connection with the issuance of the Notes (and in any event not exceeding five percent (5%) of the City's total working capital expenditures from its available funds in Fiscal Year 2009-10), all of the amounts deposited in the Note Fund (including investment earnings thereon) shall not have been so withdrawn and spent, the City shall promptly notify Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") and, to the extent of its power and authority, comply with instructions from Bond Counsel as to the means of satisfying the rebate requirements of Section 148 of the Internal Revenue Code of 1986 (the "Code").

For purposes of this section, the "proceeds" of the Notes are equal to the initial offering price of the Notes to the public, as certified to the City by the Underwriter.

**Section 6.** The interest on and principal of the Notes shall be payable from taxes, income, revenue, cash receipts and other moneys of the City that are received for or accrued to the General Fund during Fiscal Year 2010-11 and which are generally available for the payment of current expenses and other obligations of the City (the "Unrestricted Revenues") during Fiscal Year 2010-11. As security for the payment of the interest on and principal of the Notes, the City hereby agrees and covenants to establish and maintain a special fund, designated the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Note Deposit Fund" (the "Note Deposit Fund"). As additional security for the payment of the interest on and principal of the Notes, the City hereby agrees and covenants to direct the Fiscal Agent to establish and maintain in trust a special fund, designated the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). The City hereby agrees and covenants to deposit in the Note Deposit Fund (a) one-third of the total principal amount of the Notes and one-third of the total interest to be paid on the Notes at their respective maturities from the Unrestricted Revenues received by the City during the monthly accounting period ending on January 31, 2011; (b) one-third of the total principal amount of the Notes and one-third of the total interest to be paid on the Notes at their respective maturities from the Unrestricted Revenues received by the City during the monthly accounting period ending on April 30, 2011; and (c) such amount from the Unrestricted Revenues received by the City during the monthly accounting period ending on May 31, 2011, which, together with the balance then contained in the Note Deposit Fund, shall be sufficient to provide for payment of the interest due on the then outstanding Notes on their respective interest payment dates, if any, determined in accordance with Section 2 of this resolution, as well as to pay the principal and interest due on the then outstanding Notes at their respective maturity dates. All Unrestricted Revenues deposited in the Note Deposit Fund are hereby pledged for the payment of the interest on and principal of the Notes on a parity basis, and all Unrestricted

Revenues deposited in the Note Deposit Fund shall be applied proportionately for the payment of the principal of and interest on the Notes. The City shall transfer Unrestricted Revenues to the Note Deposit Fund on or before the Thursday preceding the last day of each accounting period specified above, and the payment of the interest on and principal of the Notes shall constitute a first lien and charge thereon and the Notes shall be payable ratably therefrom, and to the extent not so paid shall be paid ratably from any other moneys of the City lawfully available therefor. If the City receives insufficient Unrestricted Revenues to permit the transfer to the Note Deposit Fund of the full amount required to be deposited in the Note Deposit Fund in any accounting period specified above by the Thursday preceding the last day of the accounting period, then the amount of any deficiency shall be satisfied and made up from any other moneys of the City lawfully available for the payment of the interest on and principal of the Notes; provided, that if the total amount required to be deposited in the Note Deposit Fund by the end of any accounting period specified above is greater than the actual amount deposited therein in the accounting period, then the amount, if any, required to be deposited into the Note Deposit Fund during the next succeeding accounting period specified above shall be increased by the amount of such shortfall. At least one business day before the date on which any principal of or interest on the Notes is due (each a "Payment Date") the City shall transfer from the Note Deposit Fund to the Fiscal Agent for deposit in the Repayment Fund an amount equal to the amount of principal of and interest on the Notes becoming due on the Payment Date.

The Treasurer is hereby authorized to select other time periods and amounts than those designated above within Fiscal Year 2010-2011, for which Unrestricted Revenues received by the City are pledged to the payment of the principal of and interest on the Notes if, upon the advice of the Underwriter, the pledge of Unrestricted Revenues received during such other time periods and in such other amounts would be financially advantageous to the City. Any such change shall be described in the final Official Statement relating to the Notes.

The money in the Note Deposit Fund shall be held and applied by the City, and the money in the Repayment Fund shall be held and applied by the Fiscal Agent, only for the purposes and as directed in this resolution, and all money deposited in the Note Deposit Fund and the Repayment Fund shall be for the benefit of the holders of the Notes until the interest on and principal of the Notes are paid or until provision has been made for the payment of the interest on and principal of the Notes as the interest and principal become due. Any money remaining in or accruing to the Note Deposit Fund and the Repayment Fund after the interest on and the principal of the Notes have been paid in full, or provision for such payment has been made, shall be transferred to the City for deposit by the City into the General Fund. All money held in the Note Deposit Fund and the Repayment Fund shall be invested only as permitted by Section 53601 and Section 53601.1 of the Government Code, and, with respect to the Repayment Fund, the investment shall be specified by the City in its written request filed with the Fiscal Agent.

**Section 7.** The Treasurer is hereby authorized to execute the Notes by his manual or facsimile signature, and the City Clerk is hereby authorized to countersign the Notes by her manual or facsimile signature and to affix manually or by facsimile the seal of the City thereto; provided, that the Notes shall not be valid unless and until the Fiscal Agent shall have manually authenticated the Notes by executing the Certificate of Authentication appearing thereon.

**Section 8.** It is hereby covenanted and warranted by the City that all representations and recitals contained in this resolution are true and correct, and that the City, and its appropriate officials, have duly taken all proceedings necessary to be taken by them, and will take any additional proceedings necessary to be taken by them, for the levy, collection and enforcement of the Unrestricted Revenues pledged hereunder in accordance with law and for carrying out the provisions of this resolution.

**Section 9.** (A) The City covenants that, if it is subject to rebate as provided in Section 5 of this resolution, it shall make all calculations in a reasonable and prudent fashion relating to any rebate of excess investment earnings on the proceeds of the Notes due to the United States Treasury; shall segregate and set aside from lawfully available sources the amount the calculations may indicate may be required to be paid to the United States Treasury; and shall otherwise at all times do and perform all acts and things necessary and within its power and authority, including complying with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and complying with the instructions of Bond Counsel referred to in Section 5 of this resolution, to assure that interest on the Notes shall, for the purposes of federal income taxes and California personal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation. If such a calculation is required, the City will immediately set aside, from revenues attributable to the 2010-11 Fiscal Year or, to the extent not available from those revenues, from any other money lawfully available, the amount of any rebate in a separate fund, designated as the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Rebate Fund," that the City hereby agrees to establish.

(B) Notwithstanding any other provision of this resolution to the contrary, upon the City's failure to observe, or refusal to comply with, any covenants contained in this section, no one other than the former or current registered owners of the Notes shall be entitled to exercise any right or remedy under this resolution on the basis of the City's failure to observe, or refusal to comply with, any such covenants.

(C) The covenants contained in this section shall survive the payment of the interest on and principal of the Notes.

(D) Notwithstanding any provision of this section, if the City shall provide to the Treasurer an opinion of Bond Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the Treasurer and the City may conclusively rely on that opinion in complying

with the requirements of this section, and the covenants hereunder shall be deemed to be modified to that extent.

**Section 10.** The Official Statement in preliminary form for the Notes, in substantially the form now on file with the City Clerk, is hereby approved, and the Treasurer is authorized to certify to the Underwriter on behalf of the City that the Official Statement in preliminary form is deemed final by the City as of its date, within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (except for the omission of certain final pricing, rating and related information as permitted by that rule); and the Treasurer is hereby authorized and directed, for and in the name and on behalf of the City, to sign a copy of the Official Statement in final form, and the Underwriter is authorized and directed to distribute copies of the Official Statement in final form to all ultimate purchasers of the Notes.

**Section 11.** The form of the Note Purchase Agreement for the Notes (the "Note Purchase Agreement") providing for the sale of the Notes by the City to the Underwriter, in substantially the form now on file with the City Clerk, is hereby approved. The Treasurer is hereby authorized to accept the offer of the Underwriter to purchase the Notes when he is satisfied with the terms of the purchase and he is hereby further authorized to execute the Note Purchase Agreement for and on behalf of the City to evidence the sale of the Notes; provided, that the interest rate on any Notes shall not exceed three percent (3.00%) per annum and the underwriter's discount for the purchase of the Notes shall not exceed one percent (1.00%) of the principal amount of the Notes.

**Section 12.** U.S. Bank National Association is hereby appointed as Fiscal Agent for the Notes. The form of Fiscal Agent Agreement relating to the Notes, in substantially the form now on file with the City Clerk, is hereby approved. The Treasurer is hereby authorized and directed, for and in the name of and on behalf of the City, to execute and deliver the Fiscal Agent Agreement, with any changes, additions, completions and corrections therein as the Treasurer, after consulting with the City Attorney's Office, shall require or approve, with approval to be conclusively evidenced by the execution and delivery thereof.

The City hereby directs and authorizes the payment by the Fiscal Agent of the interest on and principal of the Notes when the interest and principal become due and payable, from the Repayment Fund in the manner set forth herein. Payment of the Notes shall be in accordance with the terms of the Notes and this resolution.

This appointment shall not preclude the City from appointing one or more successors thereto, all without notice to or the consent of the registered owners of the Notes. The City hereby authorizes an Authorized Representative to appoint any successor Fiscal Agent. Any successor Fiscal Agent shall be or shall have co-fiscal agent relationships with one or more banks or trust companies with offices in New York, New York; or Los Angeles, California; or San Francisco, California.

The Fiscal Agent is also appointed as registrar and upon the request of any registered owner is authorized to record the transfer or exchange Notes in accordance with the provisions hereof.

**Section 13.** Orrick, Herrington & Sutcliffe LLP is hereby appointed to serve as bond counsel in connection with the Notes. The form of an Agreement for Bond Counsel Services relating to the Notes, in substantially the form now on file with the City Clerk, is hereby approved. The City Attorney is hereby authorized, for and in the name of and on behalf of the City, to execute and deliver the Agreement for Bond Counsel Services, with any changes, additions, completions and corrections therein as she shall require or approve, with approval to be conclusively evidenced by the execution and delivery thereof.

**Section 14.** The City hereby agrees and covenants that it will comply with and carry out all of the provisions of that certain Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") executed by the City and dated the date of original issuance and delivery of the Notes, as originally executed and as it may be amended from time to time in accordance with the terms thereof, and notwithstanding any other provision of this resolution, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default hereunder; provided, that any registered owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this section.

**Section 15.** The Treasurer and the City Clerk are hereby authorized and directed to execute and deliver all of the Notes to the Underwriter in accordance with the Note Purchase Agreement. All actions previously taken by the officers and agents of the City or the City Council with respect to the sale and issuance of the Notes are hereby approved, confirmed and ratified and the officers and agents of the City and the City Council 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 and execute any and all certificates, agreements and other documents which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Notes in accordance with this resolution.

**Section 16.** This resolution takes effect when adopted.

Attachment- Exhibit A- Form of Notes

**EXHIBIT A**

[FORM OF NOTE]

REGISTERED

REGISTERED

No. R-\_\_

\$ \_\_\_\_\_

CITY OF SACRAMENTO  
2010 TAX AND REVENUE ANTICIPATION NOTE

Rate of Interest:	Date of Original Issuance:	Maturity Date:	CUSIP No.:
_____ %	_____	_____	_____

Registered Owner: CEDE & CO.

Principal Amount: \_\_\_\_\_ DOLLARS

FOR VALUE RECEIVED, the City of Sacramento (the "City") acknowledges itself indebted to and promises to pay to the Registered Owner identified above, or registered assigns, the Principal Amount specified above, in lawful money of the United States of America, on the Maturity Date specified above, together with interest thereon payable [on \_\_\_\_\_ and] at the maturity thereof, at the Rate of Interest per annum set forth above (computed on the basis of a 360-day year composed of twelve 30-day months) in like lawful money from the Date of Original Issuance specified above until payment in full of the principal sum. The principal of and interest on this Note shall be payable only to the registered owner hereof upon surrender of this Note at the corporate trust office of U.S. Bank National Association, as fiscal agent (together with any successor appointed by the City, the "Fiscal Agent") as the same shall fall due; provided, however, that no interest shall be payable for any period after maturity during which the registered owner hereof fails to properly present this Note for payment.

This Note is part of an authorized issue of Notes entitled "City of Sacramento 2010 Tax and Revenue Anticipation Notes" (the "Notes") issued in the aggregate principal amount of \$ \_\_\_\_\_ all of like tenor, made, executed and given pursuant to the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code, and under and pursuant to the provisions of a Resolution of the City Council of the City adopted on \_\_\_\_\_, 2010 (herein called the "Resolution"), authorizing the issuance of the Notes. All acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Note have existed, happened and been performed in regular and due time, form and manner as required by law, and this Note, together with all other indebtedness and obligations of the City, does not exceed any limit prescribed by the Constitution or statutes of the State of California. The Notes shall be secured on a parity basis with each other.

The principal of and interest on the Notes shall be payable from Unrestricted Revenues (as that term is defined in the Resolution). As security for the payment of the principal of and interest on the Notes, the City has covenanted to deposit in the Note Deposit Fund certain Unrestricted Revenues on the dates and in the amounts required by the Resolution. To the extent such funds are insufficient for the payment of the Notes, the Notes shall be paid from any other moneys of the City lawfully available therefor.

Subject to the limitations set forth in the Resolution, the registered owner of this Note or the registered owner's attorney (duly authorized in writing) may transfer this Note by surrendering it at the Fiscal Agent's corporate trust office. The Fiscal Agent shall then cancel this Note and issue a new Note to the transferee in the authorized denominations and for the same aggregate principal amount. A transfer must be done in the manner prescribed by the Resolution, and all charges specified in the Resolution must be paid.

The City and the Fiscal Agent may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and interest due hereon and for all other purposes, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary.

This Note shall not be valid or become obligatory for any purpose until the Certificate of Registration hereon shall have been signed by the Fiscal Agent.

IN WITNESS WHEREOF, the City of Sacramento has caused this Note to be executed by the Treasurer of the City, and countersigned by the City Clerk of the City, and caused its official seal to be affixed hereto, all as of this \_\_\_\_ day of \_\_\_\_\_, 2010.

CITY OF SACRAMENTO

By \_\_\_\_\_  
Treasurer

(Seal)

Countersigned:

\_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This Note is one of the Notes described in the within-mentioned Resolution, which Note has been authenticated and registered on the date set forth below.

Date of Authentication: \_\_\_\_\_

By \_\_\_\_\_  
Fiscal Agent

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ (insert Social Security Number or taxpayer identification number) the within-mentioned registered Note and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the books of the Fiscal Agent with full power of substitution in the premises.

Dated:

\_\_\_\_\_  
Signature

NOTE: The signature to the assignment must correspond to the name as written on the face of this Note in every particular, without any alteration or change whatsoever.

Signature Guaranteed By:

\_\_\_\_\_

NOTE: The signature to the assignment must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

[FORM OF DTC LEGEND]

Unless the certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate 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.

## RESOLUTION NO. 2010-\_\_\_\_\_

Adopted by the Sacramento City Council

### APPROVING THE REVENUE-AND-EXPENDITURE BUDGET FOR THE 2010 TAX AND REVENUE ANTICIPATION NOTES

#### Background:

- A. The City of Sacramento (the "City") believes that the sum of not to exceed \$50,000,000 is needed for the requirements of the City to satisfy obligations payable from the City's General Fund (the "General Fund") during fiscal year 2010-11, and that it is necessary that the City borrow this sum by the issuance of temporary notes in anticipation of the receipt of taxes, income, revenue, cash receipts, and other moneys of the City to be received for, or accrued to, the General Fund during fiscal year 2010-11.
- B. On June 22, 2010, the City Council authorized the issuance of tax and revenue anticipation notes ("TRANS") in a principal amount not to exceed \$50,000,000.
- C. The City Treasurer and the Finance Director have requested authorization to utilize inter-fund transfers if needed to supplement the TRANS, as permitted under section 113 of the City Charter, to mitigate the effects of the timing of the receipt of revenues and the recent depletion of General Fund cash, and to assist in the City's cash-management program.

**Based on the facts set forth in the Background, the City Council resolves as follows:**

**Section 1.** The City Treasurer and the Finance Director are hereby authorized to approve the financial transactions, budgets, and appropriations as needed after final pricing and sale of the TRANS and as needed to carry out the terms and intent of the financing in accordance with the law and City policy.

**Section 2.** Staff is authorized to establish and implement the necessary financial transactions including the establishment of funds and investment portfolios, to record, track, and report the receipt, expenditures, and deposits of related transactions.

**Section 3.** The Treasurer's Office, the City Attorney's Office, and the Finance Department are authorized to be reimbursed from TRANS proceeds for reasonable costs incurred, including staff time, in connection with issuance of the TRANS. Cost-of-issuance expenditures in connection with the TRANS may not be paid unless the Office of the City Treasurer has approved the expenditures in writing.

**Section 4.** The City Treasurer and the Finance Director are authorized to implement inter-fund transfers of funds in order to supplement the TRANS, if needed to satisfy obligations of the City.

**Section 5.** The inter-fund transfers, if implemented, must (a) comply with provisions of section 113 of the City Charter; (b) be duly made during fiscal year 2010-2011 and recorded in the records of the City; and (c) be repaid from the General Fund to the fund that is the source of the transfer before the end of fiscal year 2010-11.

**FISCAL AGENT AGREEMENT  
(CITY OF SACRAMENTO 2010 TAX AND REVENUE ANTICIPATION NOTES)**

**THIS FISCAL AGENT AGREEMENT (CITY OF SACRAMENTO 2010 TAX AND REVENUE ANTICIPATION NOTES)** (the "Agreement") is made and entered into as of July 1, 2010 by and between **U.S. BANK NATIONAL ASSOCIATION**, a national banking association organized and existing under the laws of the United States of America (the "Fiscal Agent"), and the **CITY OF SACRAMENTO, CALIFORNIA**, a charter city and municipal corporation, duly organized and validly existing under the constitution and laws of the State of California (the "City").

**WITNESSETH**

WHEREAS, Resolution No. 2010-\_\_\_\_ of the Sacramento City Council (the "Resolution") authorizing the issuance of the City's 2010 Tax and Revenue Anticipation Notes (the "Notes") was adopted on \_\_\_\_\_, 2010; and

WHEREAS, pursuant to the Resolution, the City has issued the Notes in the aggregate principal amount of \$\_\_\_\_\_; and

WHEREAS, the City desires to appoint U.S. Bank National Association as the Fiscal Agent under the Resolution to, among other things, hold the 2010 Tax and Revenue Anticipation Notes Repayment Fund (the "Repayment Fund") created by Section 6 of the Resolution;

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein, the parties hereto hereby agree as follows.

**1. Definitions.**

**"Authorized Representative"** means the Treasurer of the City, or his designee, or any other person authorized by resolution of the City Council of the City to act on behalf of the City with respect to the Resolution, this Agreement and the Notes.

**2. Appointment.**

2.1 Appointment of Fiscal Agent. In consideration of the recitals hereinabove set forth and for other valuable consideration, the City hereby appoints U.S. Bank National Association as the Fiscal Agent under the Resolution. The Fiscal Agent shall hold the Repayment Fund established by the Resolution and shall perform certain other functions as specified herein and in the Resolution, all as hereinafter provided and subject to the terms and conditions of the Resolution and this Agreement.

2.2 Acceptance of Appointment. In consideration of the compensation hereinafter provided for, the Fiscal Agent hereby accepts the appointment subject to the terms and conditions of the Resolution and this Agreement.

3. Duties.

3.1 Fiscal Agent to Hold Accounts. The Fiscal Agent shall hold the Repayment Fund. In addition to the deposits to the Repayment Fund required by the Resolution, the City may, from time to time, transfer other moneys of the City to the Repayment Fund.

3.2 Investment of Moneys. The Fiscal Agent shall invest moneys received hereunder in investments in accordance with the Authorized Representative's written instructions, which among other things may instruct the Fiscal Agent to enter into an investment agreement. The Fiscal Agent will not be liable for any loss of funds resulting from any such investment. The Fiscal Agent may act as principal or agent in the acquisition or disposition of investments, and the investments may include money market funds for which the Fiscal Agent or its affiliates provide investment advisory or other management services. Investment earnings on moneys in any fund or account held by the Fiscal Agent pursuant to the Resolution or this Agreement must be retained in the fund or account.

3.3 Duties of the Fiscal Agent. The Fiscal Agent's only duties with respect to the Notes are the duties specified in the Resolution or this Agreement, including:

(a) The Fiscal Agent, as registrar, shall maintain records as to the identity of the registered holders of the Notes (the "Noteholders").

(b) The Fiscal Agent, as registrar, shall effect transfers of registered ownership of Notes upon surrender of validly issued Notes to the Fiscal Agent accompanied by such instruments of transfer and other documents as the Fiscal Agent may require. The Fiscal Agent shall authenticate and deliver a new Note or Notes for a like aggregate principal amount of Note or Notes surrendered for registration or transfer.

(c) The Fiscal Agent, as registrar, shall cancel and dispose of all Notes surrendered to it for transfer or payment in accordance with its document and retention policy in effect from time to time.

(d) The Fiscal Agent, as paying agent, shall (i) prepare and mail checks or transmit by wire transfer interest payments to the Noteholders and (ii) prepare checks or transmit by wire transfer payment of the principal of Notes maturing, upon receipt of such Notes at the corporate trust office of the Fiscal Agent located in St. Paul, Minnesota.

(e) The Fiscal Agent shall establish a Cost of Issuance Fund, which will be funded from proceeds of the Notes at the time of the closing. The Fiscal Agent shall disburse moneys in the Cost of Issuance Fund only upon receipt of a sequentially numbered requisition, with bills, invoices or statements attached, that is signed by an Authorized Representative and sets forth the amounts to be disbursed for payment or reimbursement of costs of issuance properly chargeable to the Cost of Issuance Fund. Upon written notice from an Authorized Representative that all costs of issuance have been paid, but in no event later than three months after the date of closing, the Fiscal Agent shall transfer any moneys then remaining in the Cost of Issuance Fund back to the City for deposit as determined by the City.

(f) If the Fiscal Agent is notified of the loss, destruction, or theft of any Note, then the Fiscal Agent shall place a stop-transfer order against the Note at the expense of the Noteholder. The City shall execute and the Fiscal Agent shall authenticate and deliver a new Note of like series, date, maturity, and denomination as the Note lost, destroyed, or stolen, provided that there shall first be furnished to the Fiscal Agent evidence of such loss, destruction, or theft, together with indemnity satisfactory to it.

(g) As directed by an Authorized Representative, the Fiscal Agent may have additional duties not inconsistent with the terms of the Resolution or this Agreement, as agreed upon and accepted by the Fiscal Agent.

3.4 The City's Duties. The City shall cause to be deposited with the Fiscal Agent, at such times and in such amounts as required by the Resolution, the funds required to pay the principal of the Notes, together with the interest thereon, as the interest and principal become due. In addition to depositing funds in the Repayment Fund as required by the Resolution, the City may, from time to time, transfer other City moneys to the Repayment Fund. The Fiscal Agent shall pay to the City any money deposited with the Fiscal Agent for the payment of the principal of or interest on any Notes that remains unclaimed for two years after the principal or interest has become due and payable, and all liability of the Fiscal Agent shall thereupon cease.

#### 4. The Fiscal Agent.

4.1 Fiscal Agent May Hold Notes. The Fiscal Agent may become the owner of any of the Notes in its own or any other capacity with the same rights it would have if it were not the Fiscal Agent.

4.2 Liability of Fiscal Agent. The liability of the Fiscal Agent under this Agreement is as follows:

(a) except as otherwise provided in the Resolution, the Fiscal Agent may rely upon and will be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, coupon, or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) the Fiscal Agent may consult with an attorney, who may be an attorney for the City, and the attorney's written advice or opinion will be full and complete authorization and protection in respect of any action taken, suffered, or omitted by the Fiscal Agent hereunder in good faith and in reliance thereon;

(c) the Fiscal Agent is not be bound to make any investigation into the facts of matters stated in any resolution, certificate, statement, instruments, opinion, report, notice, request, direction, consent, order, note, coupon, or other paper or document, but the Fiscal Agent, in its discretion, may make such further inquiry or investigation into the facts or matters as it sees fit, and, if the Fiscal Agent determines to make such further inquiry or investigation, it will be entitled to examine the books, records, and premises of the City, personally or by agent or attorney;

(d) the Fiscal Agent may execute any of its powers hereunder or perform any of the duties hereunder either directly or by or through agents or attorneys;

(e) the Fiscal Agent will not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct;

(f) the Fiscal Agent shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent; and

(g) the Fiscal Agent shall accept and act upon a facsimile or email transmission of any written instructions or directions the City issues under this Agreement if (i) the Fiscal Agent receives the originally executed instructions and/or directions as soon as practicable after the facsimile or email transmission, (ii) the originally executed instructions and/or directions are signed by an Authorized Representative, and (iii) the Fiscal Agent receives a current incumbency certificate containing the specimen signature of the Authorized Representative.

Before the Fiscal Agent acts or refrains from acting, it may require a certificate of the City signed by an Authorized Representative or an attorney's written opinion, or both, and the Fiscal Agent shall not be liable for any actions it takes or omits to take in good faith in reliance on the certificate or opinion.

Money held by the Fiscal Agent in trust hereunder need not be segregated from other funds except to the extent required by law.

The Fiscal Agent is not accountable for the City's use of proceeds from the Notes paid to the City.

4.3 Replacement of Fiscal Agent. The Fiscal Agent may resign by notifying the City in writing at least 60 days prior to the proposed effective date of the resignation. The City may remove the Fiscal Agent, by notice in writing delivered to the Fiscal Agent, at least 30 days prior to the proposed removal date.

No resignation or removal of the Fiscal Agent under this Section 4.3 will become effective until a new Fiscal Agent has been appointed and delivered a written acceptance of the new Fiscal Agent's appointment to the prior Fiscal Agent and to the City. Immediately thereafter, the prior Fiscal Agent shall transfer all property held by it as Fiscal Agent hereunder to the succeeding Fiscal Agent; the resignation or removal of the prior

Fiscal Agent will only then become effective and the succeeding Fiscal Agent will have all the rights, powers, and duties of the Fiscal Agent under this Agreement.

If the Fiscal Agent resigns or is removed or for any reason is unable or unwilling to perform its duties under this Agreement, the City shall promptly appoint a successor Fiscal Agent.

If a Fiscal Agent is not performing its duties hereunder and a succeeding Fiscal Agent does not take office within 60 days after the prior Fiscal Agent delivers notice of resignation or the City delivers notice of removal, the prior Fiscal Agent or the City may petition a court of competent jurisdiction for the appointment of such Fiscal Agent's successor.

4.4 Successor Fiscal Agent or Agent by Merger. If the Fiscal Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act will be the successor Fiscal Agent.

4.5 Notice to Fiscal Agent. The Fiscal Agent may rely upon, and will be protected in acting or refraining from acting upon, any notice, resolution, request, consent, order, certificate, report, warrant, note, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with an attorney, who may be an attorney for the City, with regard to legal questions, and the attorney's written opinion of will be full and complete authorization and protection in respect of any action taken or suffered by the Fiscal Agent hereunder in good faith and in accordance therewith.

Whenever, in the administration of its duties under this Agreement and the Resolution, the Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, that matter (unless other evidence in respect thereof be specifically prescribed) may, in the absence of bad faith on the part to the Fiscal Agent, be deemed to be conclusively proved and established by a certificate of the City, and the certificate will be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Resolution or this Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of the matter or may require any additional evidence as to it may seem reasonable.

4.6 Compensation. The City shall pay the Fiscal Agent reasonable compensation for all services rendered by it under this Agreement as agreed to in writing by the City and the Fiscal Agent from time to time.

Except as otherwise expressly provided herein, the City shall reimburse and hold the Fiscal Agent harmless upon its request for all reasonable costs, claims, liabilities, expenses, disbursements, and advances incurred or made by the Fiscal Agent in accordance with this Agreement (including expenses, disbursements, and advances of its counsel), except to the extent covered by the compensation established herein, except any

cost, claim, liability, expense, disbursement, or advance as may be attributable to the negligence or willful misconduct of the Fiscal Agent.

**5. Miscellaneous.**

5.1 Notices. Any request, demand, authorization, direction, notice, consent, waiver, or other written communication provided or permitted by this Agreement or the Resolution to be made upon given or furnished to, or filed with:

(a) the City, will be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, or sent by overnight delivery or facsimile transmission (and properly referencing this Agreement or the Notes) to the City and received by it at City of Sacramento, City Treasurer, 915 I Street, Historic City Hall, Third Floor, Sacramento, California 95814 or at any other address previously furnished to the Fiscal Agent in writing by the City, and

(b) the Fiscal Agent, shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, or sent by overnight delivery or facsimile or e-mail transmission (and properly referencing this Agreement or the Notes) to and received by the Fiscal Agent at U.S. Bank National Association, One California Street, Suite 1000, Mail Code - SF-CA-SFCT, San Francisco, California 94111, or any other address previously furnished to the City in writing by the Fiscal Agent.

Where this Agreement or the Resolution provides for notice in any manner, notice may be waived in writing by the party entitled to receive such notice, either before or after the event, and the waiver will be the equivalent of notice.

Where this Agreement provides for notice to Noteholders of any event, notice will be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Noteholder, at the address of the Noteholder as it appears in the registrar, or if sent by overnight delivery service.

In any case where notice to Noteholders is given by mail or sent by overnight delivery, neither the failure to mail or send such notice nor any defect in any notice so mailed or sent to any particular holder will affect the sufficiency of such notice with respect to all other Noteholders. Noteholders may file written waivers of notice with the Fiscal Agent, but filing is not a condition precedent to the validity of any action taken in reliance upon a written waiver.

5.2 Term. This Agreement will be in effect until the Notes mature and all funds are disbursed or until this Agreement is amended or terminated.

5.3 Amendment. This Agreement may be amended in writing by the parties.

5.4 California Law. This Agreement is to be construed and governed in accordance with the laws of the State of California.

5.5 Terms. Capitalized terms used herein not otherwise defined have the meanings given them in the Resolution.

5.6 References to the Resolution. References herein to Sections of the Resolution are for convenience only and do not exclude the applicability of other Sections of the Resolution to the duties and responsibilities of the Fiscal Agent pursuant to the terms of this Agreement.

5.7 The Resolution. A copy of the Resolution is attached hereto as Exhibit A and hereby incorporated.

5.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed will be deemed to be an original, but all counterparts will together constitute but one and the same instrument. IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**Fiscal Agent:**

U.S. BANK NATIONAL ASSOCIATION, as  
Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**City:**

CITY OF SACRAMENTO

By: \_\_\_\_\_  
City Treasurer

**PRELIMINARY OFFICIAL STATEMENT DATED JUNE \_\_, 2010**

**NEW ISSUE – BOOK-ENTRY ONLY**

**Ratings:  
(See “RATINGS” herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer’s election under Internal Revenue Notice 94-84. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See “TAX MATTERS” herein.*

**\$40,000,000\***

**CITY OF SACRAMENTO, CALIFORNIA  
2010 TAX AND REVENUE ANTICIPATION NOTES**

**Dated: July \_\_, 2010**

**Due: June 30, 2011**

The City of Sacramento, California (the “City”) 2010 Tax and Revenue Anticipation Notes (the “Notes”) will be issued as fully registered notes. The Notes will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. The Depository Trust Company (“DTC”) will act as securities depository of the Notes. Individual purchases of the Notes will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers of the Notes (the “Beneficial Owners”) will not receive certificates representing their interests in the Notes. Interest on the Notes will be payable to the registered owners appearing on the registration books maintained by U.S. Bank National Association, as fiscal agent for the City (the “Fiscal Agent”) on the Note maturity date. So long as DTC or its nominee, Cede & Co., is the registered owner of the Notes, payments of principal of and interest on the Notes will be made directly to DTC, which in turn will remit such payments to its participants, which will in turn remit such payments to the Beneficial Owners of the Notes. See APPENDIX E – “BOOK ENTRY ONLY SYSTEM” herein.

The rate of interest and yield for the Notes are shown below.

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP† No.</u>
\$ _____*	____%	____%	

The Notes, in accordance with California law, are a general obligation of the City, but payable only from money received for or accrued to the General Fund of the City (the “General Fund”) for Fiscal Year 2010-11 (as described herein). The City has pledged all amounts on deposit in the Note Deposit Fund (as defined herein) as security for the payment of the principal of and interest on the Notes. The interest on and principal of the Notes shall be payable from taxes, income, revenue, cash receipts and other moneys of the City which are received for or accrued to the General Fund of the City during Fiscal Year 2010-11 and which are generally available for the payment of current expenses and other obligations of the City during the Fiscal Year 2010-11. See “SECURITY FOR THE NOTES” herein.

Principal of and interest on the Notes are payable on the maturity date in lawful money of the United States of America, and interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. The Notes are not subject to redemption prior to maturity. See “THE NOTES — General” herein.

The Notes will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain legal matters will be passed upon

\* Preliminary; subject to change.

† Copyright 2010, American Bankers Association. CUSIP data provided herein is provided by Standard and Poor’s CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. The City does not take any responsibility for the accuracy of such numbers.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California and for the City by the City Attorney. It is anticipated that the Notes, in book-entry form, will be available for delivery through the facilities of DTC on or about July \_\_, 2010.

**Stone & Youngberg**

**CITY OF SACRAMENTO, CALIFORNIA**

**CITY COUNCIL MEMBERS**

Ray Tretheway  
*District 1*

Lauren Hammond  
*District 5*

Sandy Sheedy  
*District 2*

Kevin McCarty  
*District 6*

Steve Cohn  
*District 3*

Robbie Waters  
*District 7*

Robert King Fong  
*District 4*

Bonnie Pannell  
*District 8*

Kevin Johnson  
*Mayor*

**CHIEF CITY ADMINISTRATIVE PERSONNEL**

Gus Vina  
*Interim City Manager*

Russell Fehr  
*City Treasurer*

Eileen M. Teichert  
*City Attorney*

Leyne Milstein  
*Finance Director*

Shirley Concolino  
*City Clerk*

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**FISCAL AGENT**

U.S. Bank National Association

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**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP

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

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

The information set forth herein has been obtained from the City and other sources which the City believes to be reliable. The information and expression of opinion herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. All summaries of the Resolution or other documents are made subject to the provisions of such documents 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.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and 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.

In connection with the offering of the Notes, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of such notes 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 the Notes to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

The Notes have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The Notes have not been registered or qualified under the securities laws of any state.

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. Such forward-looking statements include but are not limited to certain statements contained in the information in Appendix A - "CITY OF SACRAMENTO CITY FINANCIAL INFORMATION" in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that 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. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Notes.

**\$40,000,000\***  
**CITY OF SACRAMENTO, CALIFORNIA**  
**2010 Tax and Revenue Anticipation Notes**

**INTRODUCTION**

This Official Statement, which includes the attached Appendices, provides certain information concerning the sale and delivery of the 2010 Tax and Revenue Anticipation Notes (the "Notes") of the City of Sacramento, California (the "City"). The Notes (described below) are equally and ratably secured as described in the section entitled "SECURITY FOR THE NOTES" herein. The Notes are general obligations of the City, but are payable only from taxes, income, revenue, cash receipts and other moneys of the City which are received for or accrued to the General Fund of the City (the "General Fund") during the fiscal year beginning on July 1, 2010 and ending on June 30, 2011 ("Fiscal Year 2010-2011") and legally available for the payment thereof.

The Notes are being issued to finance the deficits in the General Fund cash flow during Fiscal Year 2010-2011. The deficits occur because General Fund expenditures tend to be made in relatively level amounts throughout the year while receipts have generally followed an uneven pattern, primarily as a result of the timing of secured property tax installment payment dates (December and April) and of reimbursements from state and federal government agencies.

**THE NOTES**

**General**

The Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code and a resolution adopted by the City Council of the City on June 22, 2010 (the "Resolution").

The Notes, which will mature on June 30, 2011 in the amount set forth on the cover page of this Official Statement, will be dated the date of issuance and will bear interest at the rate set forth on the cover of this Official Statement. Interest on the Notes will be computed on a 30-day month, 360-day year basis and will be payable on the maturity date of the Notes. Principal of the Notes will be payable on the maturity date of the Notes upon surrender thereof at the office of U.S. Bank National Association, as fiscal agent for the City (the "Fiscal Agent").

**Book-Entry-Only System**

The Notes will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee, which will act as securities depository for the Notes. Purchasers of the Notes will not receive certificates representing the Notes that are purchased. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM"

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\* Preliminary; subject to change.

## SECURITY FOR THE NOTES

### General

The interest on and principal of the Notes shall be payable from taxes, income, revenue, cash receipts and other moneys of the City that are received for or accrued to the General Fund during Fiscal Year 2010-11 and which are generally available for the payment of current expenses and other obligations of the City ("Unrestricted Revenues") during Fiscal Year 2010-11. Pursuant to the Resolution, as security for the payment of the interest on and principal of the Notes, the City agrees and covenants to establish and maintain a special fund, designated the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Note Deposit Fund" (the "Note Deposit Fund"). Pursuant to the Resolution, as additional security for the payment of the interest on and principal of the Notes the City agrees and covenants to direct the Fiscal Agent to establish and maintain in trust a special fund, designated the "City of Sacramento 2010 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). Pursuant to the Resolution, the City agrees and covenants to deposit in the Note Deposit Fund (a) one-third of the total principal amount of the Notes and one-third of the total interest to be paid on the Notes on the maturity date from the Unrestricted Revenues received by the City during the monthly accounting period ending on January 31, 2011; (b) one-third of the total principal amount of the Notes and one-third of the total interest to be paid on the Notes on the maturity date from the Unrestricted Revenues received by the City during the monthly accounting period ending on April 30, 2011; and (c) such amount from the Unrestricted Revenues received by the City during the monthly accounting period ending on May 31, 2011, which, together with the balance then contained in the Note Deposit Fund, shall be sufficient to provide for payment of principal and interest due on the Notes on the maturity date. Pursuant to the Resolution, all Unrestricted Revenues deposited in the Note Deposit Fund are pledged for the payment of the interest on and principal of the Notes on a parity basis, and all Unrestricted Revenues deposited in the Note Deposit Fund shall be applied proportionately for the payment of the principal of and interest on the Notes. Pursuant to the Resolution, the City is required to transfer Unrestricted Revenues to the Note Deposit Fund on or before the Thursday preceding the last day of each accounting period specified above, and the payment of the interest on and principal of the Notes shall constitute a first lien and charge thereon and the Notes shall be payable ratably therefrom, and to the extent not so paid shall be paid ratably from any other moneys of the City lawfully available therefor. If the City receives insufficient Unrestricted Revenues to permit the transfer to the Note Deposit Fund of the full amount required to be deposited in the Note Deposit Fund in any accounting period specified above by the Thursday preceding the last day of the accounting period, then the amount of any deficiency shall be satisfied and made up from any other moneys of the City lawfully available for the payment of the interest on and principal of the Notes; provided, that if the total amount required to be deposited in the Note Deposit Fund by the end of any accounting period specified above is greater than the actual amount deposited therein in the accounting period, then the amount, if any, required to be deposited into the Note Deposit Fund during the next succeeding accounting period specified above shall be increased by the amount of such shortfall. At least one business day before the maturity date of the Notes, the City shall transfer from the Note Deposit Fund to the Fiscal Agent for deposit in the Repayment Fund an amount equal to the amount of principal of and interest on the Notes becoming due on the maturity date of the Notes.

The money in the Note Deposit Fund shall be held and applied by the City, and the money in the Repayment Fund shall be held and applied by the Fiscal Agent, only for the purposes and as directed in the Resolution, and all money deposited in the Note Deposit Fund and the Repayment Fund shall be for the benefit of the holders of the Notes until the interest on and principal of the

Notes are paid or until provision has been made for the payment of the interest on and principal of the Notes as the interest and principal become due. Any money remaining in or accruing to the Note Deposit Fund and the Repayment Fund after the payment of the interest on and principal of the Notes in full, or provision for such payment has been made, shall be transferred to the General Fund. All money held in the Note Deposit Fund and the Repayment Fund shall be invested only as permitted by Sections 53601 and 53601.1 of the Government Code. See “ESTIMATED UNRESTRICTED REVENUES AND AVAILABLE CASH BALANCE - City Investments” below.

The proceeds of the sale of the Notes (net of amounts deposited with the Fiscal Agent to pay the costs of issuance of the Notes) shall be deposited into a special fund within the General Fund of the City to be designated the “2010 Tax and Revenue Anticipation Notes Note Fund” (the “Note Fund”) to be applied as directed in accordance with the Resolution. The Treasurer shall, immediately upon receiving the proceeds of the sale of the Notes, place in the Note Fund all amounts representing such proceeds received from the sale of the Notes, and all amounts held in the Note Fund shall be invested as permitted by Section 53601 and Section 53601.1 of the Government Code, and the proceeds of such investments shall be retained in the Note Fund.

The estimated amount needed to repay the Notes and the interest thereon is approximately \$\_\_\_\_\_. The City estimates as of June 1, 2010 that the total moneys to be available for payment of the principal of and interest on the Notes, including the Unrestricted Revenues, will be in excess of \$\_\_\_ million. Except for moneys deposited in the Note Deposit Fund or the Repayment Fund, these moneys will be expended during the course of the Fiscal Year, and no assurance can be given that any moneys, other than the moneys on deposit in the Note Deposit Fund or the Repayment Fund, will be available to pay the Notes and the interest thereon. See “ESTIMATED UNRESTRICTED REVENUES AND AVAILABLE CASH BALANCE - Cash Flows” herein.

**ESTIMATED UNRESTRICTED REVENUE AND AVAILABLE CASH BALANCE**

Following is a table setting forth the City’s estimate of Unrestricted Revenues and available cash balance. The table is based on the cash flow statements for the General Fund and the General Obligation Bond Debt Service Fund that follow the Table 1. The actual amount of funds available will depend on a variety of factors, and there can be no assurances that the City will have Unrestricted Revenues and available cash balance at the levels set forth in Table 1 or in the cash flows. See “City Financial Pressures.”

**TABLE 1**  
**Estimated Unrestricted Revenue and Available Cash Balance for Fiscal Year 2010-11**

(Dollars in Thousands)

<u>Source</u>	<u>Amount</u>
Unrestricted Available Cash Balance - June 30, 2010	\$-----
Property Tax	-----
Sales & Use Tax	-----
Utility User Tax	-----
Other Taxes	-----
License & Permits	-----
Fines, Forfeitures and Penalties	-----
Use of Money	-----
Intergovernmental Revenues	-----
Charges for Current Services	-----
Miscellaneous Revenues	-----
Total	\$-----
 Estimated Principal and Interest on the Notes	 \$ _____

**Interfund Borrowing**

City General Fund expenditures tend to occur in relatively level amounts throughout the fiscal year. Conversely, receipts have followed an uneven pattern primarily as a result of secured property tax installment payment dates in December and April. As a result, the General Fund cash balance has been negative during parts of Fiscal Year 2008-09 and 2009-10 and the negative balances were covered by interfund borrowings as described above.

Pursuant to the Charter of the City and the California Government Code, with the approval of the City Council, the City Manager may borrow funds from various funds established by the City to assure adequate cashflow, including repayment of the Notes. With certain exceptions, such borrowings may be for periods overlapping fiscal years. The City has identified funds from which it may borrow for periods overlapping fiscal years. Amounts available in these funds (primarily consisting of the Workers Compensation/Risk Fund, the Parking Fund, and the Community Center Fund) ranged from approximately \$74.9 million to \$124.7 million in Fiscal Year 2009-10, and are projected by the City to be approximately \$125.8 million by the end of Fiscal Year 2010-11. The actual amount available to be borrowed at any given time will depend on a variety of factors, including the actual and projected expenses and revenues attributable to such funds over the course of the fiscal year, and any prior borrowings that the City may undertake. The City may only borrow from such funds to the extent that such funds are not expected to be required by the fund during the period of the borrowing. There can be no assurances that amounts will be available for borrowing in funds at the time and in the amounts necessary to make payments with respect to the Notes, in the event that moneys on deposit in the Note Deposit Fund and Repayment Fund are insufficient for such purpose.

## Cash Flows

The City has prepared the following cash flow statements for the General Fund showing actual fiscal year 2009-10 amounts through the accounting period ended on April 30, 2010 and projected amounts through June 30, 2010 and projected cash flow for Fiscal Year 2010-11. Without the issuance of the Notes, the City will experience an estimated cash flow deficit of \$\_\_\_\_\_ million on \_\_\_\_\_, 2010.

The Cash Flow Statements are based on a variety of assumptions, including the following:

1. City revenues, including sales and property taxes, and amounts payable by the State and federal government do not decline further than projected by the City in connection with the adoption of the Fiscal Year 2010-11 Budget, as more particularly described below under "CITY FINANCIAL PRESSURES".

2. The State does not defer payments owed to the City more than it historically has done during previous fiscal years. As described herein, under "CITY FINANCIAL PRESSURES" and "STATE FINANCIAL INFORMATION," in February 2009, due to a shortfall in cash, the State Controller deferred payments of State funds, including payments to the City.

3. For Fiscal Year 2010-11, the City will make required contributions to pension funds on a monthly basis. In the prior two fiscal years, the City has made all such payments for the entire fiscal year in July of each fiscal year.

4. The cash flows for Fiscal Year 2009-10 reflect the fact that the City utilized internal borrowing for cash flow purposes in Fiscal Year 2009-10, and did not issue tax revenue anticipation notes. The City has not issued tax revenue anticipation notes since 1995.

5. For Fiscal Year 2010-11, the General Fund's share of in-lieu tax on utilities will be transferred to the General Fund on a monthly basis. In prior fiscal years, such share was transferred semiannually.

Actual cash flows for the remainder of Fiscal Year 2009-10 and Fiscal Year 2010-11 may differ significantly from the Cash Flow Statements. Such differences may be the result of one or more of a variety of factors, including the continuing impact of current national, state and local economic conditions; further declines in City revenues (including property tax revenues and/or sales tax revenues); declines in State funding to the City; increases in City costs as a result of reductions in State programs; or other reasons. There can be no assurances that any such differences will not materially adversely effect the amount of Unrestricted Revenues available for deposit in the Note Deposit Fund and Repayment Fund pursuant to the Resolution. See "CITY FINANCIAL PRESSURES."

**CITY OF SACRAMENTO  
ESTIMATED CASH FLOW STATEMENT – GENERAL FUND  
FOR THE FISCAL YEAR ENDING JUNE 30, 2010  
(\$ in 000's)**

**CITY OF SACRAMENTO  
PROJECTED CASH FLOW STATEMENT – GENERAL FUND  
FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(\$ in 000's)**

## **City Investments**

The City Council delegates investment of all City funds to the Treasurer. The City's General Fund and trust fund account balances (with the exception of certain water, sewer, parking and miscellaneous bond funds) are invested in the City's Investment Pool A ("Pool A"). Pool A is governed by the investment policy of the Treasurer which is annually presented to the City Council for approval. This policy requires the City Treasurer to conform to Government Code sections 53600, et seq, with the primary objectives, in order of priority, of safety, liquidity, and yield. Quarterly, the City's Investment Committee convenes to audit and review the investments to see that they are in compliance with Government Code and the investment policy. The Investment Committee also reviews the investment strategy and guidelines in relation to the changing financial markets. The Treasurer submits an investment activity report monthly for review by the City Council.

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

As of May 31, 2010, Pool A was invested in securities with an original cost of \$647,283,485 with an average of life of 1.43 years and an average weighted yield of 2.02%. As of May 31, 2010 the market value of the investments in Pool A was \$658,087,585.

## **Bankruptcy Law Matters**

The opinion of Bond Counsel is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditors rights. Because an issuer of tax and revenue anticipation notes could invest moneys set aside to pay registered owners of the tax and revenue anticipation notes in a pooled investment fund, should the issuer go into bankruptcy, a court might hold that the registered owners of the tax and revenue anticipation notes do not have a valid lien on the set-aside funds. In that case, unless the registered owners could trace the moneys, the registered owners would be merely unsecured creditors. The Resolution provides that certain Unrestricted Revenues pledged for the repayment of the Notes will be deposited periodically into the Note Deposit Account (until transfer to the Note Repayment Account held by the Fiscal Agent) and held in trust for the benefit of the Owners of the Notes with the intent that the amounts on deposit therein will be traceable.

## **CITY FINANCIAL INFORMATION**

Certain financial, economic and demographic information regarding the City of Sacramento is contained in APPENDIX A—"CITY OF SACRAMENTO CITY INFORMATION" and APPENDIX B—"CITY OF SACRAMENTO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009." Each contains important information concerning the City and should be read in its entirety. In particular, Appendix A describes certain factors which have affected the City's financial condition in the past and which could materially affect the financial condition of the City in future Fiscal Years, including variations in property tax growth rates, retirement and other labor costs, and the financial condition of the State. See also "CITY FINANCIAL PRESSURES."

## CITY FINANCIAL PRESSURES

Due to a variety of factors, including the housing downturn, record high unemployment and a significant reduction in taxable sales, the City is undergoing and will continue to be subject to significant financial stress. The Proposed Budget for Fiscal Year 2010-11 projects that overall General Fund Revenues will be \$ \_\_\_\_\_, as compared to \$368.5 million in Fiscal Year 2006-07.

### Property Value

There have been a significant number of foreclosures of properties in the City. The County Assessor has reduced the assessed value of approximately one-third of the residential parcels within the City. The value of commercial property has also declined, with several significant assessment appeals pending. The total assessed valuation of property in the City declined by 7.5% from Fiscal Year 2008-09 to Fiscal 2009-10, and is projected to decline by approximately 2.0% in Fiscal Year 2010-11. Property tax revenue declined by \$10 million in 2009-10, and is projected to decline by \$2.5 million in Fiscal Year 2010-11. APPENDIX A — “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – Property Taxation Within the City.”

Several redevelopment project areas exist throughout the City. For several of these project areas, the City General Fund is responsible for shortfalls in property tax increments with respect to certain tax increment financings with an approximate outstanding principal amount of \$ \_\_\_\_\_. While the tax increment is currently sufficient to pay debt service on the tax increment financings with respect to which the General Fund is contingently obligated, there can be no assurances that the General Fund will not be required to pay a portion of debt service with respect to such obligations. APPENDIX A — “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – General Fund Obligation Debt Service.”

### Sales Tax

The declines in taxable sales within the City since mid-2006 reflect the overall weakness in the local economy. Taxable sales have been negatively impacted by the housing crisis, household investment losses, high unemployment, and weak consumer confidence. Sales tax revenue for Fiscal Year 2009-10 is projected to be more than \$17 million less than the amount in the Adopted Budget for Fiscal Year 2007-08. The Adopted Budget for Fiscal Year 2010-11 projects no further declines sales tax revenues. See APPENDIX A — “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – City Budget.”

### Prior Fiscal Year Budgets

The City began to experience financial pressure in Fiscal Year 2006-2007, due primarily to increasing labor costs. While revenues grew by nearly \$20 million in Fiscal Year 2006-07 over the prior fiscal year, expenditure growth was significantly greater resulting in a budget gap of approximately \$13.7 million. This gap was closed by the use of reserves and fund balance. The actual use of fund balance in Fiscal Year 2006-07 was \$17.3 million.

In the Fiscal Year 2007-08 Adopted Budget, the City made certain expenditure reductions, but \$30.7 million deficit between expenditures and revenues was covered primarily through the use of reserves and fund balance.

In Fiscal Year 2008-09, the City cut 304 positions (out of 3,568), for a savings of over \$31 million. The City utilized \$26.9 million of fund balance to address the remainder of the projected \$58 million deficit.

Fiscal Year 2009-10 General Fund Budget. The City’s Fiscal Year 2009-10 budget cut an expenditures from the previous fiscal year’s budget by approximately \$37 million through various program reductions across all General Fund departments. Program reductions included the elimination of 387 permanent full-time equivalent positions, representing approximately 12% of the positions funded from the General Fund. The City also budgeted the use of approximately \$21 million in one-time funding sources and one-time cost reductions for the Fiscal Year 2009-10 budget.

Fiscal Year 2009-2010 Mid-Year Revenue Revisions. At Fiscal Year 2009-10 mid-year budget hearings, conducted on February 23, 2010, the City Council approved adjustments in revenue and expenditure projections intended to keep the current year’s budget in balance. The City projected that property taxes, sales taxes and certain other revenues for Fiscal Year 2009-10 will be approximately \$17.5 million (or approximately 8%) less than assumed in the 2009-10 adopted budget resulting in a projected budget shortfall equal to that amount. The revenue shortfall was covered with the use of fund balance including release of specific designated fund balance.

From Fiscal Year 2005-06 to the end of Fiscal Year 2009-10, the fund balance for the General Fund has been reduced by approximately \$100 million. General Fund cash balances have been reduced by a similar amount.

**Fiscal Year 2010-2011 General Fund Budget Outlook**

[UPDATE TO REFLECT BUDGET AS ADOPTED] The City currently has identified a Fiscal Year 2010-11 budget shortfall of approximately \$43 million. The City has conducted several hearings on the Fiscal Year 2010-11 budget in May and June 2010. Current budget proposals balance the estimated \$43 million General Fund gap through: \$14.8 million in program and service level reductions; \$18.5 million in reductions related to employee service costs, and the use of \$9.7 million in one-time resources. The \$18.5 million in labor costs reductions include the removal of funding from all current vacant positions and capturing approximately \$5.6 million in savings from labor concessions. In connection with the budget hearings for Fiscal Year 2010-11, the City Manager also identified potential deficits for Fiscal Years 2011-12 and 2012-13, as well as proposed measures to address such deficits. The City Manager’s Plan is summarized in the following table:

<u>Strategies</u>	<u>FY2010/11</u>	<u>FY2011/12</u>	<u>FY2012/13</u>
<b>Projected Deficit (\$ in millions)</b>	<b>\$(43.00)</b>	<b>\$(63.30)</b>	<b>\$(74.80)</b>
Eliminate Vacancies	12.9	14.0	14.0
Labor Concessions	5.6	5.6	5.6
Service and Labor Reductions (July 1)	12.6	10.2	10.2
Service and Labor Reductions (Midyear)	2.2	8.8	8.8
One-time Resources	9.7		
New Revenues		15.0	15.0
Other Strategies		9.7	21.2

The three-year budget plan includes seeking voter approval of additional tax revenue. Three tax changes are being contemplated: (1) an increase in the rates of the current business operations

tax; (2) a new parking tax; and (3) a new medical marijuana tax. The City Council has not yet acted to place these revenue measures on the ballot. There can be no assurances that such new taxes will ultimately be placed on the ballot for voter approval, or that the voters in the City will approve any or all of such measures.

The City Council engaged a consulting firm to perform an operational and budgetary review of the City. The review contains 48 specific recommendations, some of which are included in the City Manager's Proposed Budget. Other recommendations would take longer to implement and quantify. Included in both immediate and longer-term budget planning are departmental reorganizations resulting in fewer departments, department heads, and administrative staff. Contracting out for services currently performed by city employees, other restructuring of basic service delivery, elimination of advisory boards and commissions, reallocation of existing funding sources, changes to pension and retiree medical benefits have been recommended, and monetization of assets (Parking) are under study.

### **Additional Financial Pressures**

The City's financial condition may be further adversely affected by a continuing slowdown in the regional housing market and unemployment levels, and the impact thereof on property taxes and sales taxes. There can be no assurance that the City's financial stress will not increase due to potential continuing declines in City revenues, increases in City costs, actions by the State (including reductions or deferrals in State funds payable to the City) or other reasons. APPENDIX A — "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances - Impact of state Budget on City."

In addition, the City's required contributions for employee retirement benefits will increase significantly in Fiscal Year 2010-11 and are expected to continue to increase significantly in future fiscal years. APPENDIX A — "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Retirement Plans."

## **CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS**

Following is a description of certain constitutional limitations on taxes and appropriations applicable to the City. For a description of other factors relating to the revenues of the City, see APPENDIX A — GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO."

### **Article XIII A of the State Constitution**

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the Voters prior to June 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two thirds of the votes cast by the voters voting on the Proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per 3 ear, or to reflect a

reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

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

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

Article XIII A has also been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster. See “APPENDIX A — GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO — CITY FINANCES — Property Taxation Within the City” herein.

### **Article XIIB of the State Constitution**

Article XIIB of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the appropriations limit for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The “base year” for establishing this appropriations limit is the 1978-79 fiscal year. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

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

Article XIIB does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a

vote of the electors of the issuing entity at an election held for that purpose, or appropriations for certain other limited purposes. Furthermore, in 1990, Article XIIB was amended to exclude from the appropriations limit “all qualified capital outlay projects, as defined by the Legislature” from proceeds of taxes. The Legislature has defined “qualified capital outlay project” to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City’s long term general fund lease obligations are generally excluded from the City’s appropriations limit.

The City’s appropriation limit for the 2009-10 fiscal year is estimated to be \$583,286,000, for which expenditures subject to the appropriation limitation are \$328,377,000.

### **Articles XIIC and XIID of the State Constitution**

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIIC and XIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s general fund, require a two-thirds vote. Further, any general purpose tax the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election that must be held within two years after November 5, 1996. The voter-approval requirements of Article XIIC reduce the flexibility of the City to raise revenues for the general fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

The City currently imposes the following general taxes: business-operations tax, utility-users tax, real-property-transfer tax and transient-occupancy tax. Since all of these taxes (except the utility users tax, as described below) were imposed before January 1, 1995, and have not been extended or increased since that date, these taxes should be exempt from the requirements of Article XIIC. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIIC. See “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Other Taxes – Utility Users Tax” for a discussion of Measure O, approved by the voters in November 2008, which reduced the Utility User Tax on telephonic services from 7.50% to 7% and expanded the scope of the tax to include new communication technologies.

Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of

ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The City currently levies assessments for more than 60 service districts, maintenance districts and property and business improvement districts. These assessments are in excess of \$20 million annually. The City believes that each of such assessments and districts complies with the requirements of Article XIID, unless otherwise exempt. Subsequent increases of such assessments, if any, would be required to comply.

The City also levies assessments for 15 improvement districts under the California improvement district acts, which assessments were approximately \$17.9 million in Fiscal Year 2009-10. Each of such assessments, unless otherwise exempt, secures bonded indebtedness that is payable solely from such assessments and has no claim on the City's General Fund.

Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's general fund. If such repeal or reduction occurs, the City's operations could be adversely affected.

See Appendix A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances - Limitations on Taxes; Proposition 218 Matters" for a discussion of (i) a Sacramento County grand jury report regarding City practices pertaining to the use of utility enterprise funds that potentially do not comply with Proposition 218; (ii) litigation based on alleged Proposition 218 violations described in the grand jury report described above; and (iii) a proposed initiative to repeal certain rates increases for water, sewer and solid waste services.

### **Statutory Spending Limitations**

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

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara City Local Transportation Authority v. Guardino*, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local

government or district to impose a special tax and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The Guardino decision did not address whether it should be applied retroactively.

In response to the Guardino, the California Legislature adopted Assembly Bill 1362, which provided that the Guardino should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. Assembly Bill 1362 was vetoed by the Governor, hence the application of the Guardino decision on a retroactive basis remains unclear.

The Guardino decision also did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal.App.4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda* (1993) 20 Cal.App.4th 120 (rev. den. Feb. 24, 1994), held that the restriction imposed by Proposition 62 on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5, of the California Constitution relating to municipal affairs.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative. It is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

The City does not believe that it imposes any tax or fee which is subject to the provisions of Proposition 62.

### **Proposition 1A**

As part of Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition A at the November 2004 election. Among other things, Proposition 1A amended the State Constitution to reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales and vehicle-license fee revenues as of November 3, 2004, and by providing that the State may not reduce any local sales-tax rate, limit existing local government authority to levy a sales-tax rate or change the allocation of local sales-tax revenues, subject to certain exceptions. See "APPENDIX A – GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO—CITY FINANCES—Impact of State Budget on City" for additional information regarding Proposition 1A and the circumstances in which allocations may be changed.

### **Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues or the City's ability to expend revenues.

## LEGAL MATTERS

The validity of the Notes and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. None of Bond Counsel, the City Attorney or underwriter's counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix C hereto.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on debt obligations such as the Notes that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity, or (ii) the difference between the issue price of the Notes and the aggregate amount to be paid at maturity of the Notes (the "original issue discount"). For this purpose, the issue price of the Notes is the first price at which a substantial amount of the Notes is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax exempt debt obligations with a term that is not more than one year from the date of issue in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of the Notes if original issue discount treatment is elected.

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

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The City has made certain representations and covenanted to comply with certain restrictions, conditions

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

One of the covenants of the City referred to above requires the City to reasonably and prudently calculate the amount, if any, of excess investment earnings on the proceeds of the Notes which must be rebated to the United States, to set aside from lawfully available sources sufficient moneys to pay such amounts and to otherwise do all things necessary and within its power and authority to ensure that interest on the Notes is excluded from gross income for federal income tax purposes. Under the Code, if the City spends 100% of the proceeds of the Notes within six months after issuance, there is no requirement that there be a rebate of investment profits in order for interest on the Notes to be excluded from gross income for federal income tax purposes. The Code also provides that such proceeds are not deemed spent until all other available moneys (less a reasonable working capital reserve) are spent. The City expects to satisfy this expenditure test or, if it fails to do so, to make any required rebate payments from moneys received or accrued during Fiscal Year 2010-11. To the extent that any rebate cannot be paid from such moneys, California law is unclear as to whether such covenant would require the City to pay any such rebate. This would be an issue only if it were determined that the City's calculation of expenditures of Note proceeds or of rebatable arbitrage profits, if any, was incorrect.

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

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

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Notes for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the

interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

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

### **RATINGS**

The Notes have been assigned a rating of "MIG1" by Moody's Investors Service ("Moody's") and "\_\_\_\_" by Fitch Ratings ("Fitch"). An explanation of the significance of such rating may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Notes. The City cannot predict the timing or impact of future actions by the rating agencies.

### **LITIGATION**

No litigation is pending or threatened concerning the validity of the Notes and an opinion of the City Attorney to that effect will be furnished at the time of the original delivery of the Notes. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to levy and collect ad valorem taxes or to collect or receive the Unrestricted Revenues or contesting the City's ability to issue or retire the Notes.

There are a number of lawsuits and claims pending against the City, including personal injury and property damage suits, for which the City is either self-insured or insured in varying degrees by commercial insurance. In the opinion of the City Attorney, based upon information presently available, the aggregate amount of the liabilities of the City which may result from existing suits and claims will not materially affect the City's finances so as to impair its ability to repay the Notes.

### **UNDERWRITING**

The Notes are being purchased for offering by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Notes for an aggregate purchase price of \$\_\_\_\_\_, representing the aggregate principal amount of the Notes of \$\_\_\_\_\_, plus a net original issue premium of \$\_\_\_\_\_ less an underwriter's discount of \$\_\_\_\_\_. The public offering price set forth on the cover may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Notes to certain dealers and others at a price lower than the initial public offering price. The Underwriter will purchase all of the Notes if

any are purchased. The obligation to make such purchase is subject to certain terms and conditions as set forth in the note purchase agreement with respect to the Notes.

### **AUDITED FINANCIAL STATEMENTS**

Audited financial statements of the City for the fiscal year ended June 30, 2009, are attached hereto as Appendix B. The City's financial statements were audited by the independent accounting firm of Macias Gini & O'Connell LLP of Sacramento, California (the "Auditors"). The Auditors have not reviewed or audited this Official Statement and the City has not sought the consent of the Auditors to the inclusion of the Auditor's report in this Official Statement.

### **CONTINUING DISCLOSURE**

The City has covenanted to provide, in a timely manner, notice of the occurrence of certain events, if material, to the Municipal Securities Rule Making Board through its Electronic Municipal Market Access ("EMMA") system. Such events include (i) principal or interest payment delinquencies, (ii) non-payment related defaults, (iii) modifications to rights of security holders, (iv) note calls, (v) defeasances, (vi) rating changes, (vii) adverse tax opinions or events affecting the tax-exempt status of the security, (viii) unscheduled draws on the debt service reserves reflecting financial difficulties, (ix) unscheduled draws on the credit enhancements reflecting financial difficulties, (x) substitution of the credit or liquidity providers or their failure to perform and (xi) release, substitution or sale of property securing payment of the securities. In the past five years, the City has not failed to comply in any material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. The form of the Continuing Disclosure Certificate is included in Appendix D hereto.

### **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Notes. Summaries and explanations of the Notes, the Resolution and statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for a full and complete statement of their provisions.

The City regularly prepares a variety of reports, including audits, budgets and related documents, as well as certain monthly activity reports. Any owner of a Note may obtain a copy of any such report, as available, from the City.

The execution and delivery of this Official Statement has been duly authorized by the City. This Official Statement is not to be construed as a contract or an agreement between the City and the purchasers or owners of any of the Notes.

**EXECUTION AND DELIVERY**

The City has authorized the preparation and distribution of this Official Statement.

CITY OF SACRAMENTO

By: \_\_\_\_\_  
Russell Fehr  
City Treasurer

**APPENDIX A**  
**CITY OF SACRAMENTO CITY INFORMATION**

**APPENDIX B**

**CITY OF SACRAMENTO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE  
YEAR ENDED JUNE 30, 2009**

**APPENDIX C**  
**FORM OF BOND COUNSEL OPINION**

**APPENDIX D**  
**CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information herein describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and accredited by DTC while the Notes are registered in its nominee name. The information herein concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Notes, or notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes), or notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes 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 Note will be issued 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 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, All of which are registered clearing agencies. 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.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

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

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

Principal and interest on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent 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 Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest with respect to the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

**APPENDIX A**

**GENERAL INFORMATION REGARDING  
THE CITY OF SACRAMENTO**

**Introduction**

The City of Sacramento (the “City”) is located at the confluence of the Sacramento and American Rivers in the south central portion of the Sacramento Valley, a part of California’s Central Valley. The City is approximately 75 air miles northeast of San Francisco, and, thus, its temperature range is more extreme than that of Northern California coastal cities, ranging from a daily average of 41 degrees Fahrenheit in January to 94 degrees Fahrenheit in July. Average elevation of the City is 30 feet above sea level.

Although the City was settled in the 1830s, it was not incorporated until 1849. In 1854, the City became the location of the Capitol of the State of California (the “State”). Today, State government employees and governmental-related activities contribute substantially to the City’s economy.

**Government**

The City operates under a City Charter, adopted in 1920, that currently provides for a nine-member elected City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, City Attorney, City Clerk and the City Treasurer to carry out its adopted policies. Members of the City Council serve terms of four years. The Mayor is chairperson of the City Council and is elected in at-large City elections. City Council members are elected by eight individual districts.

In 2009, proponents submitted a sufficient number of petition signatures to place on a future ballot the “Government Accountability and Reform Measure of 2009” (commonly known as the “Strong Mayor Initiative”). The Strong Mayor Initiative seeks to change the City of Sacramento from a “Council-Manager” form of government to a “Mayor-Council” form by creating an executive mayor separate from the Council. A member of the public sued to prevent the measure from being placed on the ballot. In January 2010, before the City Council officially acted to place the measure on an upcoming ballot, the Sacramento Superior Court issued a preliminary injunction prohibiting the City from taking any steps to place the measure on the June 2010 ballot. The Court held that the State Constitution provides that the ends to be achieved (revising the City's charter) can not be achieved by the proffered means (a ballot initiative). The preliminary injunction remains in effect and the lawsuit is ongoing.

The Mayor also has indicated an intention to request the City Council to place a charter revision measure on the November 2010 ballot. The Mayor has publicly stated the proposed measure would create an executive mayor, but one with less sweeping powers than as proposed in the ballot initiative. The City Council has not taken any official action on this alternative idea. If City Council were to place any measures on the November 2010 ballot, it must act by late July.

The City provides a number of municipal services, including administration, police, fire, library, recreation, parking, public works, and utilities such as water production and distribution, refuse collection, storm drainage and maintenance.

**Key Personnel**

Gustavo F. Vina - Interim City Manager. Gus Vina was appointed Interim City Manager in March 2010. Mr. Vina is responsible for the overall function of the City, including a total operating budget of approximately \$855 million and a workforce of approximately 4,300 employees. Prior to his

appointment as Interim City Manager, he was Assistant City Manager. During his tenure as Assistant City Manager he oversaw several departments including Police, Fire, Code Enforcement, Emergency Services, Finance, Human Resources, and Labor Relations. Some of his major accomplishments include initiation of Police and Fire master plans, increased budget reserves from \$4 million to \$30 million in seven years, successful negotiations with several labor unions - including concessions that saved jobs, many years of developing balanced City budgets, and financing and construction of New City Hall. Mr. Vina joined the City of Sacramento in July 1999 as the City's Budget Manager. In September 2001, he was promoted to the City's Finance Director position overseeing the Accounting, Budget, Revenue, and Procurement Divisions. Prior to employment with the City of Sacramento, Mr. Vina served as Deputy Director of Finance, Neighborhood Services Division Manager, Safe Neighborhoods Program Manager, Contract Compliance Manager and Principal Budget Analyst during his 10 years with the City of Stockton. In addition to local government experience, he worked with the State in various capacities for nine years. Mr. Vina graduated with a Master of Public Administration from the University of San Francisco, and a Bachelor of Science in Business Administration from California State University, Sacramento.

Cassandra Jennings - Assistant City Manager. Mrs. Jennings was appointed Assistant City Manager in May 2005. She currently provides management oversight for Convention, Culture and Leisure, Fire, Neighborhood Services, Office of Youth Development, Parks and Recreation, Police, and liaison with the Joint Power Authorities (Sacramento Housing and Redevelopment Agency, Library, and Sacramento Employment and Training Agency). Prior to joining the City team, Mrs. Jennings was the Deputy Executive Director of the Sacramento Housing and Redevelopment Agency where she held various leadership positions for 18 years. Mrs. Jennings is very active in the community including serving on numerous boards such as Golden 1 Credit Union, Sacramento Region Community Foundation, Oak Park Outreach, Valley Vision, Sacramento Chapter of The Links Incorporated and Sacramento Black Chamber of Commerce. Mrs. Jennings received a Bachelor of Arts in Urban Studies from the University of Maryland, College Park and a Masters in Public Administration from the University of San Francisco.

John Dangberg - Assistant City Manager. John Dangberg was appointed Assistant City Manager in May 2006. His areas of responsibility include Code Enforcement, Community Development, Economic Development, Transportation and Utilities. Mr. Dangberg brings over 30 years of community development experience in both private and public industry and government. Prior to joining the City, he served as the Executive Director of Capitol Area Development Authority and the Director of Community Development for the Sacramento Housing and Redevelopment Agency. Mr. Dangberg received his Bachelor of Science in Public Administration from the University of San Francisco.

Patti Bisharat - Interim Assistant City Manager. Patti Bisharat was appointed Interim Assistant City Manager in April 2010. She has over 25 years of local government executive experience in a variety of functions and operations. She currently oversees Labor Relations, Finance, Human Resources, General Services, Legislative Affairs and E-Government. Ms. Bisharat has a BS in Business and a MPA in Public Policy. She has served on a number of nonprofit boards and currently is Vice Chair for Gifts to Share, Inc.

Russell T. Fehr - City Treasurer. Russell T. Fehr was appointed City Treasurer in May 2008. He was appointed by the City Council after a 24 year career in local government finance and administration. As Treasurer, he is responsible for investing City funds, banking, and debt management. Prior to being appointed City Treasurer, Mr. Fehr was the City of Sacramento's Director of Finance, responsible for accounting, budgeting, revenue collection, and procurement functions. He has been a city employee since May 2004 following 19 years of service for Sacramento County in the County Executive's Office where he was Budget and Debt Officer. During his career, Mr. Fehr has managed and participated in a wide variety of debt financings including facility issues, revenue anticipation notes, redevelopment issues, and a tobacco settlement securitization. The facilities financed include a Triple A baseball park, a musical theater in the round, libraries, parks, an art museum, a golf course, a jail, a juvenile courthouse,

health clinics, and office buildings. Mr. Fehr holds a Bachelor's Degree in Classics from Dartmouth College and a Master's Degree in Anthropology from the University of Arizona.

Eileen Monaghan Teichert - City Attorney. Eileen Monaghan Teichert was appointed City Attorney of Sacramento on January 1, 2006. Prior to that appointment she was the Supervising Deputy City Attorney of the City of Riverside, and was with that City Attorney's Office for more than eight years. Ms. Teichert was previously in private practice serving as counsel for regional banks, developers, commercial and retail businesses. Ms. Teichert obtained her Juris Doctor degree, cum laude, from University of La Verne College of Law and was admitted to practice law in 1993. Ms. Teichert also has a B.S. in Journalism from the University of Oregon.

Shirley A. Concolino - City Clerk. Shirley A. Concolino was appointed City Clerk in December 2003. Prior to that appointment, Shirley Concolino was the Mayor and Council Operations Manager for the Sacramento City Council from 1990 to 2003. Prior to her positions with the City, Ms. Concolino was the Administrative Assistant to the County Executive Officer in Solano County from 1985 to 1990 and prior to that was Assistant to the City Manager in Davis, California.

### **Employee Relations**

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

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

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

All 12 bargaining units have current contracts, with five contracts (covering seven bargaining units) expiring in June 2010; the contract with the firefighters' unit expiring in June 2012; and the remaining four expiring in June 2013. Salary and benefits for all units are defined until the contracts expire. It is the intent of the City to negotiate all agreements to June 2013.

### **Employee's Retirement Plan**

*Plan Description.* The City provides defined benefit retirement benefits through the State of California's Public Employee's Retirement System ("PERS") and the Sacramento City Employees' Retirement System ("SCERS"). PERS is an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. SCERS is a single-employer defined benefit pension plan.

All full-time and certain part-time City employees hired after January 28, 1977 and City safety employees, regardless of date of hire, are eligible to participate in PERS. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report and a separate report for the

City's plans within PERS may be obtained from the PERS Executive Office at 400 Q Street, Sacramento, California 95814.

All full-time, non-safety employees hired before January 29, 1977, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing the City of Sacramento, Department of Finance, 915 I Street, 4th Floor, Sacramento, California 95814.

The tables below summarize the funded status of the City's retirement plans as of the most recent actuarial valuation dates. Additional information regarding the City's employee retirement plans, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 8 to the City's audited financial statements set forth in Appendix B hereto.

**City of Sacramento  
Retirement Plan Trend Information  
(\$ in millions)**

**PERS - Miscellaneous Employees**

<b>Valuation Date (June 30)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age</b>	<b>Actuarial Asset Value</b>	<b>(Overfunded) Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>(Overfunded) Unfunded AAL as a % of Covered Payroll</b>
2004	\$365	\$304	\$61	83%	\$125	49%
2005	420	349	71	83	138	52
2006	487	398	89	82	153	58
2007	549	457	92	83	173	53
2008	617	510	107	83	178	60

Source: PERS actuarial valuations through June 30, 2008.

**PERS - Safety Employees**

<b>Valuation Date (June 30)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age</b>	<b>Actuarial Asset Value</b>	<b>(Overfunded) Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>(Overfunded) Unfunded AAL as a % of Covered Payroll</b>
2004	\$772	\$678	\$94	88%	\$79	118%
2005	823	730	93	89	83	111
2006	908	787	121	87	92	131
2007	971	853	118	88	100	118
2008	1048	908	140	87	110	127

Source: PERS actuarial valuations through June 30, 2008.

## SCERS

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2005	\$370	\$374	\$(3)	101%	\$12	(25)%
2006	395	365	30	92	10	313
2007	395	365	30	92	10	313
2008	392	360	32	92	9	356
2009	398	314	84	79	6	1,461

Source: SCERS actuarial valuations through June 30, 2009.

The City's annual contribution to PERS was approximately \$44.0 million for Fiscal Year 2007-08, approximately \$41.7 million for Fiscal Year 2008-09, and approximately \$44.6 million for Fiscal Year 2009-10, and is estimated to be approximately \$48.9 million in Fiscal Year 2010-11. CalPERS has notified its members that as a result of the investment loss at the end of Fiscal Year 2009-10, it will require local government employers to increase contributions in Fiscal Year 2011-12 to cover these losses. Increases in contributions for the City are estimated at approximately \$4 million in Fiscal Year 2011-12 and increasing by an additional \$4 million for each of the next four fiscal years. The City will be required to continue the additional \$16 million contribution increase for the following 26 years. This is in addition to annual rate adjustments. Final increases related to the offset of prior year losses will be provided by CalPERS for Fiscal Year 2011-12 in the coming months.

The City's annual contribution to SCERS (of which approximately 74% is payable from the General Fund) was approximately \$3.5 million for Fiscal Year 2007-08, approximately \$3.2 million for Fiscal Year 2008-09, and approximately \$3.4 million for Fiscal Year 2009-10, and is estimated to be approximately \$10.5 million in Fiscal Year 2010-11. The expected increases results from investment losses in Fiscal Year 2008-09. This pension plan was closed to new members in 1977. In the early 1980s safety employees in the SCERS pension plan were moved to CalPERS after voters approved a change to the City Charter. There are currently approximately 1,600 retirees and 100 active members of SCERS.

The City also provides defined contribution retirement benefits through the City of Sacramento 401(a) Money Purchase Plan (the "Plan"). The Plan is administered by the International City Management Association Retirement Corporation. Plan provisions and contribution requirements are established and may be amended by City Council. Unrepresented exempt and certain represented employees may elect to participate. Participating employees of the aforementioned groups are required to contribute 5% and 2% and the City contributes 4% and 2%, respectively, of covered salary. For the year ended June 30, 2009, employees contributed \$2,798,000 and the City contributed \$2,264,000 to the Plan.

### **Annual OPEB Cost and Net OPEB Obligation**

The City provides health and dental care insurance benefits for all retirees and their survivors and dependants. Participants have the choice of enrolling in one of several health plans and one of two dental plans. For City employees to be eligible for these benefits, the employee must retire with a minimum of ten full years of active service and be 55 or 50 years of age for miscellaneous and safety employees, respectively. Participants with less than twenty years of service are eligible for 50% of the maximum benefit. Those participants with a minimum of twenty years of service are eligible for 100% of the maximum benefit. The post retirement health care and dental care benefits are up to \$542 per month per participant, which covers between 16% and 100% of the benefit cost, depending on the choice of plan and number of dependants.

City benefits are defined by labor agreements approved by the City Council. Benefit costs are recorded on a pay-as-you-go basis. The City's financial statements assume that pay-as-you-go funding will continue. For Fiscal Year 2009-10, the City expended approximately \$8.4 million from the General Fund for post-employment health and dental care insurance benefits (out of a total contribution of \$11.377 million).

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Other Post-Employment Benefits ("OPEBs") provided by the City, separately from a pension plan, include health and dental care insurance contributions and an implied rate subsidy for retirees. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Under Statement No. 45, governments are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The City's retiree post-employment health and dental benefits fall under Statement No. 45. In order to comply with GASB 45, the City contracted with Bartel and Associates to provide an actuarial study to calculate the accumulated post-retirement benefit obligation with respect to post-retirement health and welfare benefits offered to its employees. In June 2008, Bartel and Associates issued its initial report, which addressed the fiscal year ending June 30, 2007. The report estimated the unfunded actuarial accrued liability at that time to be approximately \$380 million, and an annual OPEB cost of approximately \$31.5 million. The City expects that the next actuarial report relating to its OPEB obligations will be issued July, 2010.

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The current ARC rate is 11.8 percent of annual covered payroll. The following table shows the components of the City's annual OPEB cost for fiscal year 2008-09, the amount contributed to the plan, and the changes in the City's net OPEB obligation (in thousands).

Annual required contribution (ARC)	\$ 32,549
Interest on beginning OPEB liability	894
Adjustment to the ARC	<u>(838)</u>
Annual OPEB cost	32,605
Contributions made	<u>(11,377)</u>
Increase in net OPEB obligation	21,228
Net OPEB obligation - Beginning of year	<u>21,028</u>
Net OPEB obligation - End of year	<u><u>\$ 42,256</u></u>

Source: The City

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2008 and 2009 were as follows (in thousands):

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 31,525	\$ 10,497	33%	\$ 21,028
6/30/2009	32,605	11,377	35%	42,256

Source: The City

## CITY FINANCES

### City Budget

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

To establish the annual budget, departments are tasked with developing a plan for expenditure of projected available resources for the coming Fiscal Year. Labor costs are updated to reflect salary and benefit changes called for in union contracts. Estimates for unrepresented employees are also updated. Department Fund managers, in coordination with the Budget Division of the Finance Department and Budget staff, review actual revenue receipts, economic and revenue forecasts from an outside consultant and revenue forecasts to determine what resources will be available to support operating requirements. The Department of Finance develops estimates of tax revenues and other discretionary revenues. Similarly, capital improvement program priorities are married with available funds from multiple funding sources.

A base budget is prepared. This base budget reflects the costs of providing programs and services in the new budget year. The base budget also includes the updated estimates of revenues and other financing sources. The base budget contains the operating and capital budgets. Proposed operating and capital budget documents are prepared and are transmitted to the Mayor and City Council as required by City Charter on or before May 1 of each year. The Mayor and Council review the proposed operating and capital improvement budget in public hearings held in May and June.

Beginning in Fiscal Year 2006-07, the proposed budget has integrated the Mayor and City Council's direction for the City with the allocation of financial resources and participation of the Mayor and City Council earlier in the budget process. In preparing the 2010/11 budget, the City undertook a comprehensive review of and evaluation of current services and programs which categorized each service as mandatory, essential or an existing program. The purpose of the process was to present the Mayor and City Council with an inventory and hierarchy of current services and programs to assist in decision making. This process was referred to as Program Oriented Development (POD). The outcome is the consideration of the role of city government and a renewed focus on the delivery of the most essential/core services.

Following the amendment of the budgets to incorporate Mayor and City Council's changes during the public forum process, the budget is formally adopted by the vote of City Council on or before June 30 of each year. The budget for Fiscal Year 2010-11 was adopted on June 22, 2010 and is available on the City's website, [www.cityofsacramento.org](http://www.cityofsacramento.org). Information on the website is not incorporated herein by reference.

The City is currently experiencing significant financial pressures. See "CITY FINANCIAL PRESSURES" in the forepart of the Official Statement.

The following table shows the original approved budgets for Fiscal Years 2006/07 through 2009/10, and the proposed budget for 2010/11. [APPROVED BUDGET TO BE USED WHEN AVAILABLE]

**GENERAL FUND BUDGETS**  
(in thousands)

	2009/10 Approved Budget	2009/10 Revised Budget	2010/11 Adopted Budget
Available Funds:			
Property Taxes	\$130,416	\$124,269	\$124,410
Sales and Use Taxes	62,205	53,995	53,995
Utility Users Tax	60,320	57,820	57,820
Other Taxes	24,482	23,782	21,917
Licenses and Permits	15,053	15,053	9,378
Fines, Forfeitures and Penalties	11,049	11,049	10,816
Use of Money	2,798	2,798	3,292
Intergovernmental Revenue	50,049	50,049	15,729
Charges, Fees and Services	1,323	1,323	38,261
Other Revenues	0	0	124
Transfers from Other Funds	23,514	23,514	24,592
Revenue Loss	0	0	0
Total Resources	<u>\$381,209</u>	<u>\$363,652</u>	<u>\$360,334</u>
Requirements:			
Current Operations:			
Employee Services	\$352,692	\$352,692	\$333,568
Other Services and Supplies	91,401	\$91,401	91,535
Equipment	5,399	5,399	3,003
Debt Service	26,574	26,574	24,426
Labor/Supply Offset	(92,915)	(92,915)	(93,308)
Use of Contingency	1,000	1,000	1,000
Operating Transfers	N/A	N/A	N/A
Subtotal Current Operations	<u>\$384,151</u>	<u>\$384,151</u>	<u>\$360,224</u>
Capital Improvements:			
General Government	\$293	\$293	69
Public Safety	1,448	1,448	0
Public Facilities/Development	77	77	0
Culture and Leisure	0	-	0
Subtotal Capital Improvement	<u>\$1,818</u>	<u>1,818</u>	<u>69</u>
CIP Debt or Refunding	0		0
Total Requirements	<u>\$385,969</u>	<u>\$385,969</u>	<u>\$360,293</u>
Operational Surplus (Deficit)	<u>\$ 0</u>	<u>\$ (4,760)</u>	<u>\$ 41</u>
Other Financing Sources:			
Beginning Undesignated Fund Balance	\$ 0	\$ 0	\$ 0
Other	0	4,882	0
Total Other Sources	<u>\$4,882</u>	<u>\$4,882</u>	<u>0</u>
Ending Undesignated Fund Balance	<u>\$122</u>	<u>\$122</u>	<u>\$41</u>
Fund Balance Reserve for Economic Uncertainty	<u>\$10,500</u>	<u>\$10,500</u>	<u>\$10,500</u>

Source: City of Sacramento.

**General Fund Financial Summary**

The information contained in the table on the following page is summarized from audited financial statements for Fiscal Years 2004/05 through 2008/09 of the City.

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

	Actual 2004-05	Actual 2005-06	Actual 2006-07	Actual 2007-08	Actual 2008-09
<b>Revenues:</b>					
Property Taxes	\$109,227	\$126,100	\$145,376	\$150,901	\$151,551
Sales and Use Taxes	55,341	58,523	56,441	54,821	48,905
Utilities Use Tax	53,893	56,243	55,618	57,561	57,775
Other Taxes	29,372	27,764	24,430	20,539	17,495
Licenses and Permits	18,738	18,288	18,064	18,785	15,263
Fines, Forfeitures and Penalties	6,288	6,672	6,938	8,597	10,999
Interest, Rents and Concessions	3,867	5,724	7,870	3,173	861
Intergovernmental Revenues	24,721	16,103	20,863	16,039	16,833
Charges, Fees and Services	30,333	33,147	32,580	32,841	44,153
Other Revenues	310	1,279	281	831	180
<b>Total Revenues</b>	<b>\$332,090</b>	<b>\$349,843</b>	<b>\$368,461</b>	<b>\$364,088</b>	<b>\$364,015</b>
<b>Expenditures:</b>					
General Government	\$ 25,440	\$ 29,729	\$ 30,451	\$ 32,946	\$ 29,014
Public Safety	175,926	201,193	220,224	225,263	229,653
Public Works	13,840	19,243	22,600	22,713	22,846
Neighborhood Services	63,575	72,308	80,735	83,593	72,116
Non-Departmental	26,952	24,202	17,708	26,993	25,336
Capital Improvements	11,294	8,517	30,199	16,839	9,005
Debt Service	2,209	841	721	1,736	9,746
<b>Total Expenditures</b>	<b>\$319,236</b>	<b>\$356,033</b>	<b>\$402,638</b>	<b>\$410,083</b>	<b>\$397,716</b>
<b>Excess of Revenues over Expenditures</b>	<b>\$ 12,854</b>	<b>\$ (6,190)</b>	<b>\$ (34,177)</b>	<b>\$ (45,995)</b>	<b>\$ (33,701)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers from Other Funds	\$ 21,173	\$ 20,527	\$ 26,206	\$ 24,814	\$ 33,540
Transfers to Other Funds	(20,656)	(19,491)	(26,058)	(32,281)	(28,776)
Proceeds from Long-Term Debt	2,100	-	16,771	2,155	-
Proceeds from Sale of Property	-	-	-	-	2,992
Special Items	-	-	-	18,791	(929)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,617</b>	<b>\$ 1,036</b>	<b>\$ 16,919</b>	<b>\$ 13,479</b>	<b>\$ 6,827</b>
<b>Net Change In Fund Balance</b>	<b>\$15,471</b>	<b>\$ (5,154)</b>	<b>\$ (17,258)</b>	<b>\$ (32,516)</b>	<b>\$ (26,874)</b>
<b>Fund Balance Previously Reported</b>	<b>\$123,478</b>	<b>\$153,426</b>	<b>\$ 148,736</b>	<b>\$131,478</b>	<b>\$ 98,962</b>
Prior period adjustment	14,477	464	-	-	-
<b>Fund Balance, beginning of year, restated</b>	<b>\$137,955</b>	<b>\$153,890</b>	<b>\$148,736</b>	<b>\$131,478</b>	<b>\$ 98,962</b>
<b>Fund Balance, end of year</b>	<b>\$153,426</b>	<b>\$148,736</b>	<b>\$131,478</b>	<b>\$ 98,962</b>	<b>\$ 72,088</b>
<b>Less Reserves and Designations:</b>					
Non-Current Assets	\$1,305	\$1,074	\$987	\$1,604	\$ 969
Encumbrances	10,790	14,089	17,070	8,947	5,189
Inventories and Prepays	-	-	-	449	316
Designated for Economic Uncertainty	30,000	30,000	30,000	33,100	10,540
Designated for Future Labor Costs	12,000	9,300	-	-	-
Designated for Future PERS Costs	7,800	7,800	-	-	-
Designated for Balanced Budget	-	-	29,186	492	11,339
Designated for High Priority Capital Needs	-	-	5,432	-	-
Designated for Disaster Recovery	6,000	6,000	-	-	-
Designated for Grant Match	2,200	-	-	-	-
Designated for Growth Initiatives	7,500	7,500	-	-	-
Designated for Economic Development	-	3,000	-	-	-
Designated for Department Priorities	-	3,000	-	-	-
Designated for SHRA - Hotel Sale	-	-	-	6,458	-
Designated for Voluntary Separation Service	-	-	-	3,912	785
Designated for State Impacts	2,900	-	-	-	-
Designated for Capital Projects	20,601	36,604	29,280	28,942	25,925
Designated for Subsequent Years'	-	-	-	-	-
Expenditures	38,897	28,263	17,523	14,058	16,150
<b>Fund Balance Available for Appropriation</b>	<b>\$13,433</b>	<b>\$ 2,106</b>	<b>\$ 2,000</b>	<b>\$ 1,000</b>	<b>\$ 875</b>

Source: City of Sacramento.

## **Budget Policies**

The City of Sacramento develops its annual budget according to Council-adopted sustainable budget policies. These policies call for one-time funding sources to be used for only one-time operating and capital expenditures. Ongoing expenditures are to be matched with ongoing financing sources. Reserves are to be used in a planned and strategic manner only. Five-year forecasts of the General Fund are to be constantly updated as new information becomes available. The City has an Economic Uncertainty Reserve of approximately \$10.5 million as of June 1, 2010. The Adopted Budget for Fiscal Year 2010-11 does not include use of any of these funds. Full reviews of revenue receipts in comparison of the budgetary estimates are to be performed and corrective actions recommended if necessary.

See “CITY FINANCIAL PRESSURES” in the forepart of the Official Statement for a description of actions taken by the City in recent budgets to address the impacts of the economic recession on the City’s finances.

## **Financial Schedules**

A copy of the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009 is attached as APPENDIX B hereto. Prospective investors are encouraged to read the City’s Comprehensive Annual Financial Report, including the Management’s Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements, because it includes important information concerning the City and its financial condition. Audited financial statements for prior years are available upon request from the Finance Department of the City or may be obtained from <http://www.cityofsacramento.org/finance/accounting/reporting.cfm>. Macias Gini & O’Connell LLP Sacramento, California (the “Auditors”), performed the financial statement audit for the City for the Fiscal Year ended June 30, 2009.

## **City Independent Audit Policy**

An annual audit of the City is required by the Charter. It is Council’s policy to competitively select and retain independent accounting firms for five-year periods. The City selected Macias Gini & O’Connell LLP to serve as its auditors for a five-year period commencing with Fiscal Year 2008-09.

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

## **Interfund Borrowing and Cash Flows**

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

See “SECURITY FOR THE NOTES – Interfund Borrowings” for a discussion of interfund borrowing available to the City. See also “SECURITY FOR THE NOTES – Cash Flows.”

## Property Taxation Within the City

Property taxes make up the largest source of City discretionary revenue. The City lost the ability to set a property tax rate with the adoption of Proposition 13 in 1978.

Prior to Fiscal Year 1981-82, property was assessed at 25% of full cash value, which under Article XIII A of the California Constitution (Proposition 13) resulted in a maximum tax rate of \$4.00 per \$100 of taxable value, except for taxes to meet debt service on indebtedness approved by the electorate prior to July 1, 1978. Beginning with Fiscal Year 1981-82, property has been assessed at 100% of cash value and the maximum property tax rate is \$1.00 per \$100 of taxable value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS Article XIII A of the State Constitution" for discussion of the Constitutional limitations on the City's ability to issue general obligation debt payable from an increase in the tax rate.

The taxable value reflects homeowners' and business inventory exemptions. Tax revenues lost as a result of the homeowner's exemption are reimbursed by the State based on the total taxes which would be due on the taxable value of the property qualifying for the exemption, without allowance for delinquencies. The homeowner's exemption is \$7,000 of the taxable value (\$70 in taxes) of an owner-occupied dwelling, provided the owner files for the exemption.

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

The table below provides a summary of assessed valuations in the City for Fiscal Years 2000-01 through 2009-10.

### GROSS ASSESSED VALUES FOR ALL TAXABLE PROPERTY (In Thousands)

Fiscal Year	Gross Assessed Value <sup>(1)</sup>			
	Secured Roll	Unsecured Roll	Public Utility	Total
2000-01	\$18,369,903	\$1,231,639	\$54,667	\$19,656,209
2001-02	19,718,191	1,717,368	57,292	21,492,851
2002-03	21,855,519	1,157,123	66,428	23,079,070
2003-04	23,859,347	1,168,917	60,909	25,089,173
2004-05	27,010,976	1,343,104	57,800	28,411,880
2005-06	31,112,448	1,374,566	56,950	32,543,964
2006-07	35,687,712	1,441,042	54,611	37,183,365
2007-08	39,286,839	1,548,914	15,371 (2)	40,851,124
2008-09	40,360,550	1,691,096	11,948	42,063,594
2009-10	37,446,222	1,819,726	11,937	39,277,885

<sup>(1)</sup> Stated at full value; exclude property subject to redevelopment tax increments.

<sup>(2)</sup> The decrease in public utility assessed value is primarily due to the transfer of the downtown railyards to a private developer and the City.

Source: County of Sacramento, Office of Auditor/Controller.

The City receives only a portion of the property taxes collected within the City, sharing the revenue with school districts, redevelopment areas, special districts, and Sacramento County. The sharing of property tax revenue is based on formulae set in state law and regulation. Annual changes in tax

revenue are, however, proportional to changes in the tax roll values within the City. The property taxes are billed, collected and allocated by the County.

Until the recent economic downturn, particularly acute in the slowdown of the Sacramento area's housing market, the assessed values in the City had grown each year from Fiscal Year 2000-01 through Fiscal Year 2008-09. Notices of default and foreclosures of property within the City have significantly increased since Fiscal Year 2007-08. In addition, the assessed value of a large number of properties in the City have been reduced pursuant to Proposition 8. (Proposition 8 generally provides for reductions in assessed valuations of properties to reflect current market values.) As shown in the table above, assessed valuation in the City declined by approximately 7.5% in Fiscal Year 2009-10, as compared to Fiscal Year 2008-09. The City's adopted budget for Fiscal Year 2010-11 projects that assessed value will decline approximately 2% for Fiscal Year 2010-11 (as compared to Fiscal Year 2009-10), resulting in a decline in property taxes received by the General Fund of \$2.5 million (as compared to Fiscal Year 2009-10).

The following table provides a list of the City's largest local secured taxpayers for the Fiscal Year ended June 30, 2010. Many of the largest taxpayers are owners of commercial office space in downtown Sacramento.

**CITY OF SACRAMENTO  
LARGEST LOCAL SECURED TAXPAYERS  
(Fiscal Year 2009-10)  
(amounts in thousands)**

Property Owner	2008-09 Assessed Valuation	% of Total
Hines VAF II Sacramento	\$404,301	0.97%
Teachers Ins. Annuity	165,423	0.40
300 Capitol Association	132,810	0.32
Downtown Plaza LLC	128,785	0.31
Arden Fair Associates	128,744	0.31
CLPF Promenade LP	123,025	0.30
Sutter Community Hospitals	120,197	0.29
MH Realty Partners VI LP	106,121	0.26
Deutsche Bank Nat'l Trust	102,263	0.25
CIM J Street Hotel Sac	<u>92,525</u>	<u>0.22</u>
Total	\$1,504,194	2.66%

Source: CalMuni.

**Other Taxes**

**Sales and Use Tax.** The City of Sacramento has adopted a Bradley-Burns Sales Tax Ordinance which allows the City to be allocated one cent of the overall sales tax imposed in the City. The State Board of Equalization collects and distributes sales and use tax for the State, cities, counties, and other entities receiving sales tax revenue.

On November 8, 1988, the voters approved Measure A to increase the sales and use tax rate in Sacramento County by one-half percent for a period of 20 years (1989-2009). The proceeds of the Measure A tax are administered by the Sacramento Transportation Authority and are used to fund a comprehensive program of roadway and transit improvements, including highway, street, and road construction; highway, street, and road maintenance; bus and light rail capital and operations; improved transportation services for elderly and handicapped persons; and transportation-related air quality programs. The Sacramento Transportation Authority placed a measure on the November 2004 ballot to renew the Measure for 30 more years after the original measure expires. Voters overwhelmingly approved the new Measure A, with more than 75 percent of voters in favor of it. The "new" Measure A took

effect in April 2009. Coupled with the 1 1/4% increase implemented pursuant to the 1993-1994 State Budget, and the 1% increase implemented pursuant to the 2009-2010 State Budget, the sales and use tax rate in the County is now 8.75%.

As part of the 2003-04 State budget signed by the Governor of the State of California on July 31, 2004 and the State's economic recovery plan, a bond initiative formally known as the "California Economic Recovery Act" was approved by the voters on March 2, 2004. This act authorized the issuance of \$15 billion in economic recovery bonds to finance the State's Fiscal Year 2002-03 and Fiscal Year 2003-04 State budget deficits, which are payable from a fund established by the redirection of one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction to the State, commencing July 1, 2004. The portion of sales and use tax that otherwise would have been allocated to local governments, including the City, would be decreased by a commensurate amount. Commencing in Fiscal Year 2004-05, local governments' share of local property tax revenues were restored by an amount equal to the one-quarter cent reduction in the local sales and use tax, creating a revenue neutral effect on local governments for the 2004-05 Fiscal Year and subsequent Fiscal Years. To the extent that property taxes are distributed to local governments less frequently and later in each Fiscal Year than are sales taxes, the City will earn less in interest income from the investment of such moneys. During Fiscal Year 2004-05 this revenue exchange was implemented with the City receiving less sales tax and greater property tax allocations. This will remain in effect until such time as the State's economic recovery bonds have been retired. See also "Impact of State Budget on City" below.

Proposition 172 was approved by the voters to permanently extend the one-half cent sales tax beyond December 31, 1993. The legislation requires that the sales tax will continue to be deposited to the Public Safety Augmentation Trust Fund for distribution to the County and Cities based on the sales tax allocation percentages previously calculated. The City receives approximately 4% of the Proposition 172 Public Safety revenue allocated to jurisdictions within Sacramento County.

As a result of the recent economic recession, sales tax revenues to the City have declined by almost 25% since Fiscal Year 2007-08. No additional decreases are projected for Fiscal Year 2010-11.

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

In November 2008, Measure O was approved by the voters reducing the Utility User Tax on telephonic services from 7.50% to 7% and expanded the scope of the tax to include new communication technologies. There are some longer-term threats to the utility user tax revenue stream. Changes to the taxation and franchise fee structure for telecommunications and cable television are being proposed at the federal level, and legislation related to such changes was recently approved at the state level. Some of the proposed changes, if and when implemented, could reduce the utility user tax imposed on telephone and cable television use. At this point the impacts cannot be quantified.

**Transient Occupancy Tax.** Since 1990, the City has imposed a transient occupancy tax, which is currently 12%. The transient occupancy tax revenues are currently designated for the City's Community Center Fund (10%), the General Fund (1%), the Metropolitan Arts Commission (1/2%), and the Sacramento Convention and Visitors Bureau (1/2%).

### **Limitations on Taxes; Proposition 218 Matters**

As described in the forepart of the Official Statement under the caption "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS," the ability of the City to raise taxes without a vote of the electorate is very limited. In addition, Proposition 218 imposes significant limitations relating to the imposition of rates, fee and charges for various enterprises of the City.

Grand Jury Report. On January 6, 2010, the Sacramento County Grand Jury issued a Grand Jury Report (entitled “The City of Sacramento and Proposition 218 – The Law Is the Law”) regarding City practices pertaining to the use of utility enterprise funds that potentially do not comply with Proposition 218. The City submitted its written response to the Grand Jury Report, as required by law, on March 30, 2010. City staff has taken steps to eliminate those ongoing practices identified in the Grand Jury Report that have been determined not to comply with Proposition 218, which will require other City departments to pay additional amounts (approximately \$1.5 to \$2 million annually) for various utility services provided by the Department of Utilities. It is anticipated that all other departments will pay standard rates effective July 1, 2010, expect for water and solid waste rates charged to City Parks and water rates charged to the City Cemetery that will be phased in to the standard rate over time. The fiscal impacts to the other City departments have resulted in an increase in budgeted expenditures to the General Fund in the amount of approximately \$471,000 and approximately \$200,000 to other City funds to cover the cost of these services in Fiscal Year 2010-2011.

Litigation Relating to Proposition 218. A lawsuit (*Howard Jarvis Taxpayers Association et al. v. City of Sacramento, Sacramento County Superior Court Case No. 34-2010-80000425*) was filed against the City on January 15, 2010, seeking declaratory relief and a writ of mandate based on the following alleged Proposition 218 violations described in the Sacramento County Grand Jury Report described above: (1) water being provided to City parks and other City facilities at reduced rate; (2) solid waste services being provided to City facilities and public events at no cost; (3) Department of Utilities (“DOU”) employees and equipment used to perform work for non-DOU facilities without reimbursement; and (4) Purchase of the so-called “Natomas Auto mall” property funded in part by drainage funds. The City currently has until May 28, 2010 to respond to the complaint. This lawsuit may result in additional fiscal impacts, but at this point in time such impacts are unknown.

Utilities Rate Hike Roll Back Act of 2010 Initiative. Following the submission of signatures by the Sacramento County Taxpayers League, the “Utilities Rate Hike Roll Back Act of 2010” (the “Rate Initiative”) has been qualified to appear on the November 2010 ballot. If the Rate Initiative receives voter approval, the Rate Initiative would amend the Sacramento City Code to repeal the rate increases for monthly water, sewer, and solid waste services that are scheduled to take effect on July 1, 2010. These rate increases were approved by the City Council in June 2009. This rate roll-back would take effect on July 1, 2011, and the monthly water, sewer and solid waste service rates thereafter would be set at the rates in effect as of February 10, 2010 (the City’s current rates for Fiscal Year 2009/10). Adoption of the Rate Initiative also would limit the City’s ability to increase monthly rates for these services without voter approval in the future. The proposed Initiative does not apply to the City of Sacramento’s storm drainage rates.

If the Initiative is approved by the voters and subsequently prevents the City from adopting utility service rate increases, the 5-year forecast for each of the three affected funds (water, sewer and solid waste services) would be significantly impacted, which also would impact the City’s enterprise fund general tax revenues that are allocated to the General Fund. At this time, it is difficult to project with any certainty what other impacts there would be to the General Fund.

### **Impact of State Budget on City**

Since the early 1990s, the State has required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Educational Revenue Augmentation Fund (“ERAF”) in lieu of direct payments to school districts from the State General Fund. The property tax shifts began in Fiscal Year 1992-93 and were increased in Fiscal Year 1993-94. The City’s ERAF contribution changes annually proportionate to changes in the annual Equalized Property Tax Roll.

The City’s receipt of a portion of the Vehicle License Fee (“VLF”) is an important revenue source. Prior to Fiscal Year 2004-05, existing law provided generally that annual vehicle license fees

were to be calculated at 2% of the market value of the applicable vehicle, and that the net fee proceeds were to be distributed to cities and counties, subject to an offset of 67.5% of 2%. Existing law further provided that the amount of the offset was to be back-filled to cities and counties by the State from moneys in the State's General Fund. Senate Bill 1096 (Chapter 211, Statutes of 2004) ("SB 1096") repealed the offset, and instead provided that annual vehicle license fees are to be calculated at 0.65% of the market value of the applicable vehicle. SB 1096 also repealed the obligation for the State to "back-fill" the offset from the State's General Fund, and instead compensates cities and counties for the reduced vehicle license fee revenues by providing for a "vehicle license fee adjustment" commencing in Fiscal Year 2004-05 and in each Fiscal Year thereafter. The replacement revenue for direct State backfill payments is an increased allocation of local property taxes. In Fiscal Year 2004-05 the property tax backfill was based on an estimate from the State Controller. In Fiscal Year 2005-06 and following years, the backfill is an increased share of base and growth property taxes. In addition, the City is to receive a settlement payment based on the difference between what would have been the backfill based on actual VLF collections and the State Controller's estimate. Proposition 1A (as hereinafter defined) amended the State Constitution to codify the obligation of the State to provide such vehicle license fee adjustment.

The State budget provides continued funding for local governments to make up the difference between the 0.65% rate of the VLF and the previous 2% rate through a reallocation of property tax from schools and community colleges to cities and counties. The allocation of VLF property tax backfill for Fiscal Year 2009/10 was proportional to growth in the equalized property tax roll within the City, -7.5%. The estimated Fiscal Year 2010/11 VLF growth rate is -2%.

In connection with the shift of \$2.6 billion of local agency revenues to school funding over the next two Fiscal Years, the Legislature and the Governor agreed to place Proposition 1A, entitled "Protection of Local Government Revenues," on the ballot ("Proposition 1A"). Proposition 1A was approved by the voters in November 2004 and amends the California Constitution to (i) prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (and only then if (x) such amounts were agreed to be repaid with interest within three years, (y) the State had repaid certain other borrowed amounts and (z) certain other conditions were met including that such borrowing could not occur more often than twice within ten Fiscal Years) and except voluntary exchanges of local sales tax and property tax revenues among local governments within a county; (ii) protect the property tax backfill of sales tax revenues diverted to pay the economic recovery bonds, and the reinstatement of the sales tax revenues once such bonds are repaid; and (iii) protect local agency vehicle license fee revenue (or a comparable amount of backfill payments from the State). Backfill payments are now in the form of property tax shifts from schools to cities.

The State's Fiscal Year 2009/10 Budget included the taking of local property taxes as allowed under Proposition 1A. However, the State legislation provided for a mechanism pursuant to which local governments could "sell" their right to repayment to a joint powers authority, which could then issue bonds. Pursuant to the provisions of Proposition 1A, the State cannot take local property taxes until the 2009/10 take is repaid and then can only impose one additional take over the next nine years.

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2010/11 State budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." Additionally, an analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://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. Information on these websites is not incorporated by reference.

On May 14, 2010, the Governor released the May Revision to the 2010-11 State Budget (the "May Revision"). The May Revision projects a budget gap of \$19.1 billion (compared to \$19.9 billion projected in the 2010-11 Proposed State Budget), which is comprised of a current year shortfall of \$7.7

billion, a budget year shortfall of \$10.2 billion and a reserve of \$1.2 billion. The May Revision proposes to address the shortfall through program reductions, various fund shifts, alternative funding and other revenues. The May Revision estimates Fiscal Year 2009-10 revenues and transfers of \$86.52 billion, total expenditures of \$86.46 billion and a year-end deficit of \$5.30 billion, which includes a \$6.84 billion withdrawal from the reserve for economic uncertainties and an allocation of \$1.54 billion to the reserve for the liquidation of encumbrances. The May Revision projects Fiscal Year 2010-11 revenues and transfers of \$91.45 billion, total expenditures of \$83.40 billion and a year-end surplus of \$2.74 billion (net of the \$5.30 billion deficit from Fiscal Year 2009-10), of which \$1.54 billion will be reserved for the liquidation of encumbrances and \$1.20 billion will be deposited in a reserve for economic uncertainties. The May Revision indicates that the recession is likely over and the State's economic outlook for the near future is positive but sober, and due to the depth of the recession, the recovery will be moderate and prolonged as compared to historical standards.

The City cannot predict what actions will be taken with respect to Fiscal Year 2010-11 and in future years by the State Legislature and the Governor to address the State's chronic budget deficits. The State's inability to close its structural budget gap is of concern to local governments. There can be no assurances that continued financial pressures on the State will not materially adversely impact the City's financial condition. In addition, future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced sources of funds available to the City, the City will be required to make adjustments to its budgets.

#### **No Default**

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

#### **Debt Statement**

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of June 30, 2010. The Debt Report is included for general information purposes only. The City makes no representations as to its completeness or accuracy.

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

**DIRECT AND OVERLAPPING BONDED DEBT  
CITY OF SACRAMENTO  
(As of June 30, 2010)**

2009-10 Assessed Valuation: \$39,277,884,620  
 Redevelopment Incremental Valuation: 4,944,439,672  
 Adjusted Assessed Valuation: \$34,333,444,948

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/10	% Applicable (1)	City's Share of Debt 6/30/10
Los Rios Community College District	\$199,815,000	24.220%	\$ 48,395,193
Natomas Unified School District	191,669,102	87.999	168,666,893
Sacramento Unified School District	362,182,966	80.545	291,720,270
San Juan Unified School District	258,740,398	3.015	7,801,023
Twin Rivers Unified School District	29,092,440	45.387	13,204,186
Grant Joint Union High School District	162,788,863	46.777	76,147,746
North Sacramento School District	33,880,305	100.	33,880,305
Rio Linda Union School District	61,654,791	16.920	10,431,991
Robla School District	17,201,128	59.088	10,163,803
City of Sacramento Community Facilities Districts	158,230,000	100.	158,230,000
Elk Grove Unified School District Community Facilities District No. 1	154,336,626	11.599	17,901,505
Sacramento City Unified School District Community Facilities District No. 1	2,400,000	100.	2,400,000
City of Sacramento 1915 Act Bonds	18,212,000	100.	18,212,000
Sacramento Area Flood Control Agency Consolidated Capital Districts Assessment District	168,040,000	64.906	109,068,042
Sacramento Area Flood Control Agency Operation and Maintenance Assessment District	4,165,000	40.550	1,688,908
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$967,911,865</b>

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Sacramento County General Fund Obligations	\$373,115,337	29.141%	\$ 108,729,540
Sacramento County Pension Obligations	931,452,642	29.141	271,434,614
Sacramento County Board of Education Certificates of Participation	10,560,000	29.141	3,077,290
Los Rios Community College District Certificates of Participation	6,505,000	24.220	1,575,511
Natomas Unified School District Certificates of Participation	63,730,000	87.999	56,081,763
Sacramento Unified School District Certificates of Participation	83,105,000	80.545	66,936,922
Sacramento Unified School District Pension Obligations	3,630,000	80.545	2,923,784
San Juan Unified School District Certificates of Participation	1,972,573	3.015	59,473
Grant Joint Union High School District Certificates of Participation	129,825,000	46.777	60,728,240
<b>City of Sacramento General Fund Obligations</b>	<b>790,557,500</b>	<b>100.</b>	<b>790,557,500</b>
Fulton-El Camino Recreation and Park District Certificates of Participation	525,000	18.426	96,737
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,362,201,374</b>
Less: Sacramento County self-supporting obligations			2,114,908
<b>City of Sacramento self-supporting bonds</b>			<b>508,223,243</b>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 851,863,223</b>

GROSS COMBINED TOTAL DEBT \$2,330,113,239 (2)  
 NET COMBINED TOTAL DEBT \$1,819,775,088

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.  
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2009-10 Assessed Valuation:  
 Total Overlapping Tax and Assessment Debt..... 2.46%

Ratios to Adjusted Assessed Valuation:  
**Gross Combined Direct Debt (\$790,557,500)..... 2.30%**  
**Net Combined Direct Debt (\$282,334,257)..... 0.82%**  
 Gross Combined Total Debt ..... 6.79%  
 Net Combined Total Debt..... 5.30%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0  
 Source: CalMuni

## **General Fund Obligation Debt Service; Interest Rate Swap**

The following table sets forth a summary of the City's total annual General Fund obligation debt service payments as of June 30, 2010. General obligation bonds as well as obligations represented by certificates of participation have historically been structured with equal annual debt service requirements. General obligation bonds are exempt from the tax rate limitations imposed under Article XIII A of the State Constitution. Obligations represented by certificates of participation are supported to a substantial degree from amounts budgeted from certain enterprise and other funds as indicated in the following table.

In 2007, the City entered into an interest rate swap with Goldman Sachs Capital Markets, L.P. (the "Counterparty") in connection with the City Financing Authority (the "Authority") of its \$73,725,000 1997 Lease Revenue Bonds (Arco Arena Acquisition) variable interest rate bonds (the "Arco Arena Bonds"). The Arco Bonds carry an interest rate equal to 3-month London Interbank Offered Rate ("LIBOR") plus 0.25% (total rate not to exceed 14%), payable quarterly, until July 19, 2017. The swap agreement terminates on July 19, 2017, and has a notional amount as of June 30, 2010 of \$68,655,000. Under the swap, the Authority pays the counterparty a fixed payment of 5.607% and receives a variable payment equal to the interest rate payable on the Arco Arena Bonds. See Note 7 in Appendix B – "CITY OF SACRAMENTO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009."

The City's interest rate swap transaction entails risk to the City. Actual interest rates may vary from assumptions made at the time the swap transaction was executed, and the City may not realize the expected financial benefits from the swap transaction. In addition, the potential future exposure to the City relating to the difference in payments between the amount the City receives in connection with any swap transaction and pays pursuant to that transaction, including termination payments or other non-scheduled payments, cannot be predicted. The Counterparty may terminate the swap upon the occurrence of certain termination events or events of default, which may include failure of either the City or the Counterparty to maintain credit ratings at specified levels. If either the Counterparty or the City terminates any swap, the City may be required to make a termination payment to the Counterparty (even if such termination is due to an event affecting the Counterparty, including the Counterparty's failure to maintain credit ratings at specified levels), and there is no assurance that such payment by the City would not have a material adverse impact on its financial position. The City may enter into additional interest rate swaps in the future. The current estimated amount of such termination payment, as of June 7, 2010, is approximately negative \$10.95 million. The valuation of the swap or any future swaps is volatile, and will vary based on a variety of factors, including current interest rates. There can be no assurances that termination amounts potentially payable by the City will not significantly increase.

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**GENERAL FUND OBLIGATION DEBT SERVICE  
AS OF JUNE 30, 2010**

Fiscal Year	1993 <sup>(1)</sup> Lease Rev. Bonds	1997 <sup>(2)</sup> Lease Rev. Bonds	1999 <sup>(3)</sup> CFD 2 Lease	1999 <sup>(4)</sup> Cap. Impr Rev.	2002 <sup>(5)</sup> Cap. Impr Rev.	2002 <sup>(6)</sup> COP H St. Theatre	2002 <sup>(7)</sup> Refunding Rev. Bonds	2003 <sup>(8)</sup> Cap. Impr Rev.	2005 <sup>(9)</sup> Refunding Rev. Bonds	2006 <sup>(10)</sup> Cap. Impr Rev Ser. A, B	2006 <sup>(11)</sup> Cap. Impr Rev Ser. C, D, E.	Capital, Small <sup>(12)</sup> Equip., Lses Adv. & Nts	Total Debt Service Obligations	% of FY 10-11 <sup>(13)</sup> General Fund Revenues \$360,224,000	Total Supported By Other Sources	Adjusted Total Supported By General Fund	Adjusted <sup>(13)</sup> Percent of FY 05-06 General Fund Revenue \$360,224,000
2010	\$15,536,027	\$5,163,195	\$232,656	\$1,961,008	\$7,925,303	\$1,053,789	\$5,665,563	\$2,295,200	\$9,166,400	\$10,831,869	\$14,307,988	\$2,735,704	\$76,874,701	21.34%	\$43,936,379	\$32,938,322	9.14%
2011	15,527,202	5,291,620	237,031	2,057,373	7,920,758	1,048,711	5,661,888	2,288,900	9,982,900	10,842,582	14,297,988	3,294,955	78,451,907	21.78%	43,948,728	34,503,179	9.58%
2012	15,509,721	5,393,448	240,781	2,059,303	7,908,474	1,052,226	5,651,375	2,287,144	9,980,800	10,834,456	14,292,588	3,130,941	78,341,257	21.75%	44,744,476	33,596,781	9.33%
2013	15,492,536	5,519,307	243,906	262,338	7,919,172	1,052,531	5,642,625	2,285,811	16,173,100	10,833,778	11,091,688	3,130,941	79,647,735	22.11%	45,742,384	33,905,351	9.41%
2014	15,479,208	5,643,038	246,406	264,499	7,904,123	1,051,712		2,281,039	16,248,725	10,816,758	11,093,892	3,130,941	74,160,342	20.59%	46,794,885	27,365,456	7.60%
2015	15,468,171	5,768,629	243,438	261,110	3,176,157	1,049,678		3,356,096	20,526,225	10,812,511		2,384,566	74,137,705	20.58%	46,976,782	27,160,923	7.54%
2016	15,437,935	5,872,975	245,000	261,860	2,262,588	1,051,448		3,510,934	21,427,600	10,805,696	11,091,683	2,046,708	74,014,426	20.55%	48,376,332	25,638,094	7.12%
2017	15,430,735	6,031,230	245,938	261,710	2,248,800	1,051,938		3,559,381	21,404,850	10,799,388	11,091,855	2,046,708	74,172,532	20.59%	47,633,374	26,539,158	7.37%
2018	15,408,975	6,177,089	251,094	260,980	2,747,831	1,051,108		3,612,686	20,886,350	9,225,313	11,090,825	1,265,130	71,977,381	19.98%	47,828,512	24,148,869	6.70%
2019	15,391,035	6,320,335	255,313	259,670	-	1,048,918		3,762,761	17,481,100	9,229,575	11,540,000	598,771	65,887,478	18.29%	41,665,618	24,221,860	6.72%
2020	15,369,890	6,468,319	253,750	262,635	-	1,050,215		2,591,754	17,425,225	9,212,048	11,573,525	583,332	64,790,692	17.99%	42,639,018	22,151,675	6.15%
2021	15,348,515	6,623,079	256,406	259,931	-	1,044,958		2,168,896	16,470,100	9,210,746	11,042,000	-	62,424,631	17.33%	40,778,619	21,646,012	6.01%
2022		6,801,010	262,969	261,563	-	1,047,831		279,601	16,337,475	9,198,629	12,755,675	-	46,944,752	13.03%	31,354,729	15,590,024	4.33%
2023		6,971,223	263,438	262,331		1,043,975		277,395	5,685,600	9,191,481	22,593,150		46,288,593	12.85%	26,967,089	19,321,504	5.36%
2024		7,142,902	262,969			1,043,000		279,754	5,537,225	9,182,750	22,126,169		45,574,769	12.65%	27,784,862	17,789,907	4.94%
2025		7,336,167				1,044,625		271,772	5,538,688	9,181,265	22,027,794		45,400,310	12.60%	26,622,550	18,777,760	5.21%
2026		7,531,982				1,044,500		273,375	5,527,644	9,171,351	22,043,856		45,592,707	12.66%	28,179,318	17,413,389	4.83%
2027		7,728,334				1,042,625		274,375	5,533,631	9,162,435	22,035,025		45,776,424	12.71%	27,010,066	18,766,358	5.21%
2028						1,039,000		274,875	5,537,250	9,163,419	22,039,475		38,054,019	10.56%	20,669,340	17,384,678	4.83%
2029						1,038,500		284,625	5,517,000	9,158,354	22,132,225		38,130,704	10.59%	19,321,030	18,809,674	5.22%
2030						1,036,000		288,500	5,514,500	9,146,692	22,135,788		38,121,480	10.58%	20,718,915	17,402,565	4.83%
2031						1,036,375		291,625		9,132,759	22,135,044		32,595,803	9.05%	14,544,510	18,051,293	5.01%
2032						1,034,500		289,125		9,130,306	22,137,375		32,591,306	9.05%	16,009,624	16,581,682	4.60%
2033						1,035,250		291,000		9,113,362	22,144,775		32,584,387	9.05%	14,545,507	18,038,879	5.01%
2034								292,125		9,106,001	5,639,300		15,037,426	4.17%	6,266,506	8,770,920	2.43%
2035										9,096,828	2,005,000		11,101,828	3.08%	3,223,585	7,878,243	2.19%
2036										9,074,993	2,004,250		11,079,243	3.08%	4,046,760	7,032,483	1.95%
2037										9,069,174			9,069,174	2.52%	2,090,445	6,978,729	1.94%

Offsetting Settings=> 74% 100.0% 0.0% 100.0% 53.7% 100.0% 40.0% 36.2% 86.5% 23.1% 56.2% 39.3%

(1) 1993A Lease Revenue Bonds support: 80.5% Community Center Fund, 8.0% Golf Fund and 1993B Lease Revenue Bonds support: 30.2% Parking Fund, 13.0% Storm Drainage Fund, 9.0% Community Center Fund.  
(2) 1997 Lease Revenue Bonds support: ARCO Arena Sublease. Assumes the fixed rate established pursuant to the Swap Agreement for the 1997 Bonds is in effect for the remaining term of the bonds.  
(3) 1999 CFD2 Lease.  
(4) 1999 Capital Improv Rev. Bonds support: 26.8% Solid Waste, 73.1% SHRA (54.5% Loan and 18.6% Master Lease).  
(5) 2002 Capital Improv Rev. Bonds support: 43.3% General Fund, 53.7% SHRA.  
(6) Obligation is payable from H Street Theatre Revenues.  
(7) Refunded the 1991 COP(Public Facilities) and 1991 COP (Light Rail): 60% General Fund, 40% Community Center Fund.  
(8) 2003 Capital Improv Rev. Bonds support: 63.8% - General Fund, 36.2% - Other Sources.  
(9) Refunded the 1999 CIRB (24.02%), 2000 CIRB (21.81%), 2001 CIRB (35.19%), 2002 CIRB (18.98%); Supported by SHRA 15.75%, Solid Waste 13.73%, Parking 12.18%, Water 35.25%, and Golf 0.59%.  
(10) 2006 Capital Improv. Rev. Bonds support: 76.95% General Fund, 17.33% SHRA, 5.11% Haggin Oaks.  
(11) 2006 Capital Improv. Rev. Bonds support: 43.80% General Fund, 47.60% Water fund, 6.57% North Natomas Fund, 1.22% SHRA (2002 ML Merged Downtown, ML Stockton Blvd, 2002, &Tax Allocation Merged Downtown), .81% Golf Fund.  
(12) Capital, Small Leases, Advances and Notes support: 39.3% supported by Solid Waste.  
(13) Data based on FY 11 General Fund Revenue Forecast.  
Source: City of Sacramento

## CITY ECONOMICS

### Population

A comparison of the City's population growth to that of the County of Sacramento (the "County") and the State is provided in the table below. Population estimates are as of January 1 in each year.

#### CITY OF SACRAMENTO COUNTY OF SACRAMENTO STATE OF CALIFORNIA Population Estimates

Year	City of Sacramento	Average Annual Percentage Change	County of Sacramento	Average Annual Percentage Change	State of California	Average Annual Percentage Change
1970	257,105	3.41%	643,373	2.80%	19,935,134	2.68%
1980	275,741	0.72	783,381	2.18	23,667,837	1.87
1990	369,365	3.40	1,041,219	3.29	29,758,213	2.57
1995	384,300	0.81	1,115,100	1.42	31,910,000	1.45
2000	407,018	1.18	1,223,499	2.07	33,873,086	1.27
2001	414,639	1.87	1,252,690	2.39	34,430,970	1.65
2002	426,943	2.97	1,287,557	2.78	35,063,959	1.84
2003	435,744	2.06	1,318,012	2.37	35,652,700	1.68
2004	444,658	2.05	1,345,646	2.10	36,199,342	1.53
2005	452,904	1.85	1,368,333	1.69	36,676,931	1.32
2006	458,091	1.15	1,386,185	1.30	37,086,191	1.12
2007	466,606	1.86	1,402,728	1.19	37,472,074	1.04
2008	474,470	1.69	1,418,763	1.14	37,883,992	1.10
2009	481,356	1.45	1,432,168	0.94	38,255,508	0.98
2010	486,189	1.00	1,445,327	0.92	38,648,090	1.03

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

### Industry and Employment

As the seat of State government, the City has traditionally had a large public sector workforce. In recent years, the employment base in Sacramento and the surrounding area has diversified as the relatively low cost of living and supply of skilled labor have drawn a number of technology, financial services and healthcare employers.

As a result of the recent economic recession, unemployment levels throughout the country (including in the City) have significantly increased since Fiscal Year 2007-08.

Set forth below is data reflecting the County's civilian labor force, employment and unemployment. These figures are County-wide and may not necessarily accurately reflect employment trends in the City.

**SACRAMENTO METROPOLITAN STATISTICAL AREA**  
**Estimated Number of Wage and Salary Workers By Industry**

	2004	2005	2006	2007	2008	2009	2010*
Civilian Labor Force <sup>[1]</sup>	1,002,200	1,013,900	1,028,700	1,042,400	1,051,400	1,057,600	1,060,300
Employment	947,000	964,100	980,600	987,100	977,500	939,200	921,100
Unemployment	55,200	49,800	48,100	55,300	73,900	118,400	139,200
Unemployment Rate	5.5%	4.9%	4.7%	5.3%	7.0%	11.2%	13.1%
Total All Industries <sup>[2]</sup>	866,400	888,300	906,600	911,000	890,200	842,100	820,800
Total Farm	7,400	7,400	7,500	7,900	8,200	8,700	7,800
Total Nonfarm	859,100	880,900	899,000	903,000	882,100	833,400	813,000
Goods Producing	114,100	117,200	114,200	108,400	95,600	77,900	69,100
Natural Resources & Mining	700	700	700	700	700	500	400
Construction	70,800	73,400	70,700	66,900	56,200	43,000	35,600
Manufacturing	42,600	43,100	42,800	40,900	38,700	34,400	33,100
Service Providing	745,000	763,700	784,900	794,600	786,500	755,500	743,900
Trade, Transportation & Utilities	146,100	148,900	153,600	153,100	146,600	134,500	131,700
Wholesale Trade	26,500	26,900	28,400	27,900	26,500	24,100	23,000
Retail Trade	96,700	98,700	100,700	99,800	95,100	87,100	86,000
Transportation, Warehousing & Utilities	22,900	23,400	24,500	25,400	25,100	23,300	22,700
Information	20,900	19,900	20,000	20,100	19,200	18,300	17,600
Financial Activities	60,400	63,500	64,600	61,800	57,500	53,600	51,100
Professional & Business Services	103,100	108,600	112,500	112,100	110,100	100,700	96,800
Education & Health Services	84,600	88,200	92,100	96,800	99,400	99,400	99,700
Leisure & Hospitality	79,900	82,100	85,300	86,600	85,900	81,900	79,500
Other Services	28,500	28,500	28,300	29,000	29,600	28,700	27,400
Government	221,600	224,000	228,400	235,000	238,200	238,500	240,100
Federal Government	12,600	12,800	12,600	12,400	12,500	12,700	12,700
State and Local Government	209,000	211,300	215,800	222,700	225,800	225,800	227,400

<sup>[1]</sup> Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>[2]</sup> Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

\* As of March 2010.

Source: Labor Market Information Division of the California State Employment Development Department.

The tables below represents the Sacramento Region Major Private-Sector Employers for the greater Sacramento area (including, Sacramento, El Dorado, Placer, Sutter, Yolo and Yuba Counties) and the major public sector employers. Major private employers in the Sacramento area include those in health care, electronics, telecommunications, retail, financial and package delivery services. Major public sector employers include the State of California and the County. The data presented is from July 2009, and may not reflect subsequent layoffs or other reductions in work force.

**GREATER SACRAMENTO AREA  
Major Private Sector Employers 2009**

<b>Company</b>	<b>Type of Business</b>	<b>No. of FTE Employees</b>
Kaiser Permanente	Health Care	10,081
Mercy/Catholic Healthcare West	Health Care	8,279
Sutter Health	Health Care	7,314
Intel Corporation	Semiconductor Manufacturer	6,000
Wells Fargo & Co.	Financial Services	3,690
Raley's	Retail Grocery	3,401
Pride Industries Inc.	Manufacturing & Logistics	2,841
HealthNet of CA	Health Care	2,512
Cache Creek Casino Resort	Leisure & Hospitality	2,460
Pacific Gas & Electric	Natural Gas and Electric Utility	2,169

Source: Sacramento Business Journal Annual 2009 Book of Lists; as of July 2009.

**Major Public Sector Employers-Sacramento County only  
2009**

<b>Company</b>	<b>Number of FTE Positions</b>
State of California	73,273
Sacramento County	13,304
UC Davis Health System	8,496
Sacramento City Unified School District	6,500
Elk Grove Unified School District	6,391
San Juan Unified School District	5,190
City of Sacramento	4,556
Los Rios Community College District	4,430
California State University Sacramento	2,424
Sacramento Municipal Utility District	2,135
Folsom Cordova Unified School District	2,095

Source: Sacramento Business Journal Annual 2009 Book of Lists, as of July 2009

**Median Effective Buying Income**

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

According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County of Sacramento, the State of California and the United States for the period 2002 through 2009.

**EFFECTIVE BUYING INCOME  
2002 through 2009<sup>(1)</sup>**

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2002	City of Sacramento	\$6,604,013	\$34,715
	Sacramento County	\$22,127,827	\$40,690
	California	\$650,521,407	\$43,532
	United States	\$5,303,481,498	\$38,365
2003	City of Sacramento	\$6,596,088	\$33,949
	Sacramento County	\$22,645,845	\$39,879
	California	\$647,879,427	\$42,484
	United States	\$5,340,682,818	\$38,035
2004	City of Sacramento	\$7,082,308	\$34,324
	Sacramento County	\$23,979,765	\$40,448
	California	\$674,721,020	\$42,924
	United States	\$5,466,880,008	\$38,201
2005	City of Sacramento	\$7,478,565	\$35,407
	Sacramento County	\$25,154,530	\$41,593
	California	\$705,108,410	\$43,915
	United States	\$5,692,909,567	\$39,324
2008	City of Sacramento	\$8,836,535,000	\$40,007
	Sacramento County	\$29,859,232	\$46,334
	California	\$832,531,445	\$48,952
	United States	\$6,300,794,040	\$41,792
2009	City of Sacramento	\$9,180,905	\$40,769
	Sacramento County	\$30,497,550	\$46,903
	California	\$832,531,445	\$48,952
	United States	\$6,443,994,426	\$42,303

<sup>(1)</sup> In 2002, the publisher of Sales and Marketing Management, altered the methodology used in order to produce current year estimates. The 2006 edition of Sales and Marketing Management has not been published as of the date hereof, and therefore 2006 estimates are not available.

Source: Survey of Buying Power, Sales & Marketing Management Magazine, dated 2002, 2003, 2004, 2005, 2008 and 2009

## Building Permit Activity

The following table shows the number and value of new building permits issued in the City during calendar years 2006 through 2010.

**CITY OF SACRAMENTO**  
**New Building Permit Valuation**  
**For Calendar Years 2006 through 2010**  
**(Valuations in Thousands)**

Permit Valuation	2006	2007	2008	2009	2010 <sup>(1)</sup>
New Single-family	211,301,576	228,761,842	165,420,031	25,845,150	3,494,088
New Multi-family	169,160,730	83,840,728	68,034,957	5,898,259	650,000
Res. Alterations/Additions	113,100,281	113,668,150	99,934,096	95,547,289	19,588,624
Total Residential	<u>493,562,587</u>	<u>426,270,720</u>	<u>333,389,084</u>	<u>127,290,698</u>	<u>23,732,712</u>
New Commercial	186,225,999	161,927,905	185,320,673	36,498,829	6,455,824
New Industrial	26,610,422	11,535,251	7,168,805	0	0
New Other	52,347,200	55,318,722	51,656,367	24,834,129	2,401,934
Com. Alterations/Additions	139,022,975	196,913,553	235,977,454	166,964,341	34,164,460
Total Nonresidential	<u>404,206,596</u>	<u>425,695,431</u>	<u>480,123,299</u>	<u>228,297,299</u>	<u>43,322,218</u>
New Dwelling Units					
Single Family	1,731	1,334	921	148	23
Multiple Family	1,907	7,65	698	68	6
TOTAL	<u>3,638</u>	<u>2,099</u>	<u>1,619</u>	<u>216</u>	<u>29</u>

Note: Totals may not foot due to rounding.

<sup>(1)</sup> Through March 31, 2010.

Source: Construction Industry Research Board, Building Permit Summary.

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**Commercial Activity**

The following table shows a summary of historic taxable sales within the City. (The reporting format was revised in 2009.)

**CITY OF SACRAMENTO  
Taxable Transactions  
For Calendar Years 2004 through 2008  
(in thousands)**

<b>Business</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>RETAIL STORES:</b>					
Apparel Stores	217,533	244,319	255,287	255,278	279,933
General Merchandise Stores	668,864	700,577	728,658	732,031	635,959
Food Stores	268,920	279,255	287,961	294,300	265,079
Eating & Drinking Places	559,897	615,212	654,795	673,734	690,946
Home Furnishings & Appliances	127,725	146,232	124,357	93,626	155,001
Building Materials	480,420	528,628	498,946	363,840	274,463
Automotive	457,911	421,707	382,405	447,679	367,082
Service Stations	317,874	382,239	425,225	486,016	535,786
Other Retail Stores	701,522	721,612	742,340	690,971	576,099
Retail Stores Total	3,800,666	4,039,781	4,099,974	4,037,475	3,780,949
All Other Outlets	1,869,898	2,029,214	1,952,188	1,910,278	1,924,068
<b>TOTAL ALL OUTLETS</b>	<b>5,670,564</b>	<b>6,068,995</b>	<b>6,052,162</b>	<b>5,947,753</b>	<b>5,704,418</b>

Source: State Board of Equalization

**CITY OF SACRAMENTO  
Taxable Transactions  
For Calendar Year 2009 <sup>(1)</sup>  
(in thousands)**

<b>Business</b>	<b>2009</b>
<b>RETAIL AND FOOD SERVICES:</b>	
Motor Vehicle and Parts Dealers	79,457
Home Furnishings and Appliance Stores	61,931
Bldg. Material and Garden Equipment and Supplies	53,899
Food and Beverage Stores	62,617
Gasoline stations	86,808
Clothing and Clothing Accessories Stores	68,584
General Merchandise Stores	105,835
Food Services and Drinking Places	169,191
Other Retail Group	104,954
Total Retail and Food Services	793,275
All Other Outlets	379,847
<b>TOTAL ALL OUTLETS</b>	<b>1,173,122</b>

Source: State Board of Equalization

<sup>(1)</sup> Through March 31<sup>st</sup> 2009.

## **Education**

Public school education in the City is available through seven school districts with the Sacramento region having over 700 K – 12 schools representing an enrollment of 398,000. The region is also served by numerous private and technical trade schools including DeVry University, Heald Business College, ITT Technical Institute, MTI College of Business Technology, University of Phoenix, and Drexel University – Center for Graduate Studies.

The Los Rios Community College District's 2,400 square mile service area serves the majority of Sacramento County, as well as portions of El Dorado, Placer, Yolo and Solano Counties. More than 90,000 students are enrolled in our colleges. Los Rios Community College District is a two-year public college district that includes American River, Cosumnes River, Folsom Lake, and Sacramento City colleges; major centers in Placerville, Davis, West Sacramento, downtown Sacramento, Natomas, and Rancho Cordova; and special services for business and industry.

The Los Rios colleges offer transfer education - students complete freshman and sophomore years and transfer to a four-year college or university - and AA/AS degrees and certificates in over 70 career fields.

California State University, Sacramento, offers 60 undergraduate, 40 graduate and two doctoral programs in areas as diverse as business administration, liberal arts, engineering, education and nursing. The reported combined enrollment of undergraduate and graduate students for the 2008-09 school year was 29,241. Other higher education facilities located in the City are: McGeorge School of Law branch of the University of the Pacific; the Medical Center of the University of California, Davis; National University; Lincoln Law School; Golden Gate University; University of Phoenix; the University of Southern California (for public administration); the University of Northern California (law); and the Drexel University, Center for Graduate Studies.

## **Transportation**

The Union Pacific Railroad, a transcontinental line, has junctions in Sacramento. Interstate passenger rail service is provided by AMTRAK. Intercity passenger rail service is provided by Amtrak California, a Caltrans and Amtrak partnership. Interstate 80 connects Sacramento with the San Francisco Bay Area, Reno, Nevada and points east. U.S. 50 carries traffic from Sacramento to the Lake Tahoe area. Interstate 5 is the main north-south route through the interior of California; it runs from Mexico to Canada. State 99 parallels Interstate 5 through central California and passes through Sacramento.

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

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

Sacramento International Airport is about 12 miles northwest of downtown Sacramento. The airport is served by 12 major carriers and two all-cargo carriers. Executive Airport, located in the City, is a full-service, 540-acre facility serving general aviation; providing a wide array of facilities and services. Finally, Mather Airport currently offers full-service, fixed-base operations, 24-hour air traffic control, serves general aviation and has one of the longest runways in California.

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**CITY OF SACRAMENTO, CALIFORNIA  
2010 TAX AND REVENUE ANTICIPATION NOTES**

**NOTE PURCHASE AGREEMENT**

June \_\_, 2010

City Council  
City of Sacramento  
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, Stone & Youngberg LLC (the "Underwriter"), hereby offers to enter into this Note Purchase Agreement with the City of Sacramento, California (the "City"). Upon acceptance of this offer by the City, this Note Purchase Agreement will be binding upon the City and the Underwriter. This offer is made subject to acceptance by the City of this Note Purchase Agreement, by the execution and delivery of this Note Purchase Agreement to the Underwriter at or prior to 5:00 p.m. California time on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice to the City at any time prior to acceptance hereof by the City.

The undersigned represents that it is authorized to enter into this Note Purchase Agreement.

1. Purchase and Sale of Notes.

(a) Subject to the terms and conditions hereinafter set forth, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell to the Underwriter, all (but not less than all) of the City's \$\_\_\_\_\_ aggregate principal amount of 2010 Tax and Revenue Anticipation Notes (the "Notes") at the aggregate purchase price of \$\_\_\_\_\_ (consisting of the principal amount of the Notes plus original issue premium of \$\_\_\_\_\_, less an underwriter's discount of \$\_\_\_\_\_). The Notes will bear interest at \_\_\_% per annum, shall be as described in the Official Statement (as hereinafter defined), and shall be executed, delivered and secured under and pursuant to Resolution No. 2010-\_\_\_\_\_ adopted by the City Council (the "Council") on June \_\_, 2010 (the "Resolution"). The Underwriter agrees to make a public offering of the Notes at the initial offering price or prices established by the Underwriter, which may be changed from time to time by the Underwriter after the initial date of offering.

(b) Pursuant to the Resolution, the City has approved the form and distribution of the Preliminary Official Statement dated June \_\_, 2010, (the "Preliminary Official Statement") relating to the Notes and the distribution of an Official Statement (together with any amendment or supplement authorized by the City, the "Official Statement"), consisting of the Preliminary Official Statement with such changes as are necessary to reflect the principal amount, maturity date or dates, interest rates, redemption provisions and other information relating to the sale of the Notes, with the approval of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"); Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriter and the Underwriter. By signing this Note Purchase Agreement, the City confirms that the City has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities

Exchange Act of 1934 (“Rule 15c2-12”), except for the omission of certain information permitted to be omitted therefrom in accordance with Rule 15c2-12. It is a condition of the offer of the Underwriter made hereby that the City deliver a reasonable number of copies of the final Official Statement, in a form deemed to be final for purposes of Rule 15c2-12, within seven business days of the date hereof.

(c) The City hereby ratifies any prior use of, and authorizes the future use by, the Underwriter, in connection with the offering and sale of the Notes, of the Resolution, the Preliminary Official Statement and the Official Statement, and all information contained therein.

(d) The Underwriter shall give notice to the City on the date after which no participating underwriter, as such term is defined in Rule 15c2-12, remains obligated to deliver the Official Statement pursuant to paragraph (b)(4) of the Rule. Prior to the earlier of (1) such receipt of notice from the Underwriter that the Official Statement is no longer required under the Rule or (2) the 25<sup>th</sup> day after the Closing Date, the City shall provide the Underwriter with such information regarding the City, its current financial condition and ongoing operations as the Underwriter may reasonably request.

(e) Unless otherwise notified in writing by the Underwriter on or before the Closing Date, the City may assume that the “end of the underwriting period” for the Notes for all purposes of Rule 15c2-12 under the Securities and Exchange Act of 1934 is the Closing Date. If such notice is given, then the Underwriter shall notify the City in writing following the occurrence of the “end of the underwriting period” as defined in Rule 15c2-12 for the Notes. The “end of the underwriting period” as used in this Note Purchase Agreement means the Closing Date or such later date as to which notice is given by the Underwriter in accordance with the preceding sentence.

2. Closing. At 8:00 a.m., California time, July \_\_, 2010, or at such other time or on such earlier or later date as the City and the Underwriter agree upon, the City shall deliver, or cause to be delivered to the Underwriter, the Notes, together with the other documents hereinbefore or hereinafter mentioned; the Underwriter shall accept such delivery and pay the purchase price of such Notes as set forth in Section 1 by wire transfer to the City in federal or other immediately available funds to the order of the City. Delivery and payment as aforesaid shall be made at the offices of Orrick, Herrington & Sutcliffe LLP, Sacramento, California, or at such other place as the City and the Underwriter agree upon; provided that the Notes shall be delivered through the facilities of the Depository Trust Company, New York, New York or its F.A.S.T. agent. Such time of payment and delivery is herein called the “Closing Date.”

The Notes shall be delivered in the form of a single fully registered Note, registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York (“DTC”). Ownership interests in the Notes may be purchased in book-entry form only in denominations of five thousand dollars (\$5,000) and any integral multiple thereof as specified by the Underwriter five days before the Closing Date.

3. Representations, Warranties, Covenants and Agreements of the City. The City, by its acceptance hereof, represents, warrants, covenants and agrees with the Underwriter as follows:

(a) The City is a municipal corporation and charter city, duly organized and existing under the laws of the State of California and its charter. The City is empowered to issue the Notes and has full power and authority to take all actions required or permitted to be taken by the City by or under, and to perform and observe the covenants and agreements on its part contained in, this Note Purchase Agreement, the Notes, the Resolution and the Continuing Disclosure Certificate (as defined on the Official Statement) (collectively, the "City Documents").

(b) On or before the date hereof, the City has duly taken all action necessary to be taken by it prior to such date for (1) the execution, delivery and performance of the City Documents; (2) the distribution of the Official Statement; and (3) the carrying out, giving effect to, consummation and performance of the transactions and obligations contemplated hereby and by the Official Statement; provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States.

(c) The Resolution has been duly adopted by the City, is in full force and effect and has not been modified or supplemented, and this Note Purchase Agreement has been duly executed and delivered by the City and, assuming the due execution and delivery by the Underwriter, is the legal, valid and binding obligation of the City, enforceable against the City in accordance with its terms, except that the binding effect and enforceability thereof may be limited by (1) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance law) or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing, or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, or (4) by the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California.

(d) When executed and delivered by the City, the Continuing Disclosure Certificate will have been duly executed and delivered by the City and will be the legal, valid and binding obligation of the City, enforceable against the City in accordance with its terms, except that the binding effect and enforceability thereof may be limited (1) by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance law) or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness and good faith and fair dealing or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law or (4) by the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California.

(e) To the actual knowledge of the City, after a reasonable investigation that did not include searching or reviewing the records of any federal, state, or local court or agency or the searching or reviewing of City records other than those directly connected with the Notes, and except as otherwise disclosed in the Official Statement, the adoption of the Resolution and the execution and delivery of this Note Purchase Agreement, the Notes and the Continuing Disclosure Certificate and the compliance with the terms, conditions, or

provisions hereof and thereof and the consummation of the transactions herein and therein contemplated do not and will not in any material way conflict with or constitute a breach of or a default under or result in a violation of the City Charter, any constitutional provision or any law (or any regulations, order, writ, injunction or decree of any court or governmental instrumentality applicable to the City) or result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the City pursuant to any resolution, agreement or instrument to which the City is a party or by which it or any of its properties is bound other than the lien created by the Resolution.

(f) To the actual knowledge of the City, after reasonable investigation that did not include searching or reviewing the records of any federal, state, or local court or agency, and except as described in the Official Statement, all authorizations, consents and approvals of, notices to, registrations or filings with, or actions in respect of any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the City of this Note Purchase Agreement, the Notes and the Resolution have or will have been obtained, given or taken and will be in full force and effect as of the Closing Date; provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States.

(g) To the actual knowledge of the City, after reasonable investigation that did not include searching or reviewing the records of any federal, state, or local court or agency, and, except as described in the Official Statement, the City has not been served with process in, and has not been overtly threatened with, any action, suit, proceeding, inquiry or investigation before or by any court, public board or body (1) seeking to restrain or enjoin the execution, sale or delivery of the Notes; (2) in any way contesting or affecting the validity of enforceability of the City Documents; (3) contesting in any way the completeness or accuracy of the Official Statement; (4) contesting the authority of the City with respect to the City Documents; or (5) affecting the City wherein an unfavorable decision, ruling or finding is likely to have a material adverse effect on the financial condition or solvency of the City or affect the validity or enforceability of, or the authority or ability of the City to perform its obligations under the City Documents.

(h) The City shall cooperate with the Underwriter in the qualification of the Notes for offering and sale and the determination of the eligibility of the Notes for investment under the laws of such jurisdictions as the Underwriter designates and shall continue any such qualification in effect so long as required for the distribution of the Notes by the Underwriter; provided that the City is not required to consent to service of process in any jurisdiction or to expend any funds in connection with such qualification. The City is not responsible for compliance with or the consequences of failure to comply with applicable "Blue Sky" laws.

(i) At the time of the City's acceptance hereof, the Preliminary Official Statement and, as of the date hereof, the Official Statement (excluding the statements and information relating to DTC and the book entry system, as to which no opinion need be expressed) did not and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) If at any time from the date hereof to and including 25 days from the Closing Date, any event occurs of which the City has actual knowledge, as a result of which the Official Statement would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, then the City shall cooperate with the Underwriter in the preparation and furnishing of an amendment or supplement to the Official Statement.

(k) If the information contained in the Official Statement is amended or supplemented pursuant to the Section 3(j), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to Section 3(j)) at all times subsequent thereto up to and including 25 days from the Closing Date, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained herein) will be true and correct in all material respects and will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the information therein, in light of the circumstances under which it was made, not misleading.

(l) When the Notes are issued, authenticated and delivered in accordance with the Resolution and paid for by the Underwriter as provided for herein, the Notes will be legally valid and binding obligations of the City, enforceable in accordance with their terms, except as such enforceability may be limited by (1) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance law); or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (4) by the exercise of judicial discretion in appropriate cases or the limitations on legal remedies against public entities in the State of California. The Notes will be entitled to the benefits of, and secured by, the Resolution.

(m) Any certificate signed by any official of the City and delivered in connection with the transactions contemplated by the Official Statement and this Note Purchase Agreement will be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, the City will not have issued any bonds, notes or other obligations for borrowed money except for such borrowing as may be described in or contemplated by the Official Statement

(o) Except as disclosed in the Official Statement, there has not been any material adverse change in the financial condition of the City since June 30, 2009 and there has been no occurrence, circumstance or combination thereof that is reasonably expected to result in any such material adverse change. The financial statements of, and other financial information regarding the City in, the Official Statement fairly present the financial position and results of the operations of the City as of the dates and for the periods therein set forth, and (1) the audited financial statements have been prepared in accordance with the generally accepted accounting principles consistently applied, and (2) the other financial information in

the Official Statement has been determined on a basis substantially consistent with that of the City's audited financial statements included in the Official Statement.

(p) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is an issuer whose arbitrage certificates may not be relied upon.

4. Conditions to the Underwriter's Obligations. The obligations of the Underwriter under this Note Purchase Agreement have been undertaken in reliance on, and shall be subject to, the due performance by the City of its obligations and agreements to be performed hereunder and to the accuracy of and compliance with the respective representations, warranties, covenants, and agreements of the City contained herein, in each case on and as of the date of delivery of this Note Purchase Agreement and on and as of the Closing Date. The obligations of the Underwriter hereunder are also subject, in the discretion of the Underwriter, to the following further conditions:

(a) On the Closing Date, (1) the City Documents must be in full force and effect and must not have been rescinded, amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and the City must have adopted, and there must be in full force and effect such additional resolutions, agreements, opinions and certificates (including such certificates as may be required by regulations of the Internal Revenue Service to establish the tax exempt character of interest on the Notes), which resolutions, agreements, opinions and certificates must be satisfactory in form and substance to bond counsel to the City and the Underwriter and its counsel, and there must have been taken in connection therewith and in connection with the issuance of the Notes all such action as are, in the opinion of each, necessary in connection with the transactions contemplated hereby; (2) the Notes must have been duly authorized, executed, authenticated and delivered; (3) the Official Statement must not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter; and (4) the City must perform or have performed all of its obligations under or specified in, each City Document to be performed at or before the Closing Date and the Underwriter must have received evidence, in appropriate form, of such actions.

(b) On or before the Closing Date, the Underwriter must have received the following documents, in each case satisfactory to the Underwriter:

(1) this Note Purchase Agreement and the Continuing Disclosure Certificate duly executed and delivered by the City and the Underwriter and a certified copy of the Resolution, each with such amendments, modifications or supplements as may have been agreed to by the Underwriter;

(2) an unqualified approving opinion, dated the Closing Date and addressed to the City and the Underwriter, of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") in substantially the form attached as Appendix C to the Official Statement, together with a supplemental opinion in a form acceptable to the Underwriter, dated the Closing Date and addressed to the Underwriter, to the effect that:

(i) this Note Purchase Agreement has been duly executed and delivered by the City and (assuming due authorization, execution and delivery by and validity with respect to the Underwriter) constitutes a valid and binding agreement of the City

subject to (A) bankruptcy or other laws affecting creditors' rights and (B) the application of equitable principles, and no opinion need be expressed with respect to any indemnification or contribution provisions therein;

(ii) the Continuing Disclosure Certificate has been duly executed and delivered by the City and constitutes a valid and binding agreement of the City subject to (A) bankruptcy or other laws affecting creditor's rights and (B) the application of equitable principles, and no opinion need be expressed with respect to any indemnification or contribution provisions therein;

(iii) the Notes are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Resolution is exempt from qualification under the Trust Indenture Act of 1939, as amended; and

(iv) the statements contained in the Official Statement under the caption "THE NOTES", SECURITY AND SOURCES OF PAYMENT FOR THE NOTES", TAX MATTERS", and APPENDIX C – FORM OF OPINION OF BOND COUNSEL (excluding any material that may be treated as included under such captions by cross-reference) insofar as such statements expressly summarize certain provisions of the Resolution and the form and content of Bond Counsel's opinion concerning the Notes, are accurate in all material respects;

(3) The opinion of the City Attorney or her designee, dated the Closing Date and addressed to the Underwriter, to the effect that

(i) the City is a chartered city duly organized and validly existing under its charter, the Constitution, and the laws of the State of California;

(ii) the Official Statement relating to the Notes has been duly approved by the City;

(iii) the Resolution was duly adopted at a meeting of the City Council called and held according to law with all public notice required by law and at which a quorum was present and acting throughout, and the Resolution is in full force and effect and has not been amended, modified, or rescinded;

(iv) the City has full right and lawful authority to deliver the Official Statement and to execute and deliver the Notes, this Note Purchase Agreement and the Continuing Disclosure Certificate, and the City has duly authorized, executed and delivered the Official Statement, the Notes, this Note Purchase Agreement, and the Continuing Disclosure Certificate;

(v) the Notes, this Note Purchase Agreement and the Continuing Disclosure Certificate are legally valid and binding obligations of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by (A) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws); or (B) by general principles of equity including, without limitation, concepts of materiality,

reasonableness, and good faith and fair dealing; or (C) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (D) by the exercise of judicial discretion in appropriate cases or to the limitations on legal remedies against public entities in the State of California and provided that no opinion need be expressed with respect to any indemnification or contribution provision contained in the Notes, this Note Purchase Agreement, or the Continuing Disclosure Certificate, or with respect to the state or federal laws that pertain to the tax-exempt status of the Notes;

(vi) to the actual knowledge of the City Attorney or her designee, the adoption of the Resolution and the execution and delivery of the Notes, this Note Purchase Agreement and compliance with the provisions hereof and thereof, under the circumstances contemplated thereby and hereby, do not and will not in any material way conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument applicable to or binding upon the City or any of its properties or the City Charter, or any existing law, regulation, court order or consent decree to which the City or any of its properties are subject; and

(vii) except as described in the Official Statement, to the actual knowledge of the City Attorney or her designee, the City has not been served with process in, and has not been overtly threatened with, any action, suit or proceeding, inquiry or investigation before or by any court, public board or body; (A) that contests in any way the completeness or accuracy of the Official Statement, or in which an unfavorable decision, ruling, or finding is likely to have a material adverse effect on the financial condition of the City or on the transactions contemplated by the Note Purchase Agreement or the Official Statement; or (B) that is likely to adversely affect the validity or enforceability of, or the authority or ability of the City to perform its obligations under the Notes, the Note Purchase Agreement, the Resolution, the Continuing Disclosure Agreement and which is used or contemplated for use in consummation of the transactions contemplated by the Note Purchase Agreement or the Official Statement;

in each case subject to the exception and limitations described in the Legal Opinion Accord included in the Third-Party Legal Opinion Report of the ABA Section of Business Law (1991) and the "California Provisions" as defined in the Business Law Section of the State Bar of California Report on the Third-Party Legal Opinion Report of the ABA Section of Business Law (dated May 1992), and certain other standard exceptions and limitations specified in the opinion of the City Attorney or her designee.

(4) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriter, dated the Closing Date and addressed to the Underwriter, in form and substance satisfactory to the Underwriter.

(5) A certificate, dated the Closing Date, signed by the appropriate City officials and in form and substance satisfactory to the Underwriter, to the effect that, to the current actual knowledge of such official (after reasonable investigation, which did not include a search of federal, state or other court agency records):

(i) the representations and warranties of the City contained in this Note Purchase Agreement are true and accurate on and as of the Closing Date as if made on such date;

(ii) the City has complied or is then in compliance with all agreements and has satisfied all conditions on its part to be observed or satisfied under each City Document at or before the Closing;

(iii) between the date of the Official Statement and the date of the certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising from transactions in the ordinary course of business, as described in the Official Statement; and

(iv) the officials have examined the Official Statement, and in the opinion of the officials, the Official Statement as of its date and as of the Closing Date did not and does 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.

(6) A tax certificate for the Notes in form satisfactory to Bond Counsel and the Underwriter.

(7) Evidence satisfactory to the Underwriter to the effect that the Notes have received a rating of \_\_\_\_\_ from Moody's Investors Service and \_\_\_\_\_ from Fitch.

(8) Any additional legal opinions, certificates, proceedings, instruments and other documents the Underwriter, Bond Counsel, the City Attorney, or counsel to the Underwriter, may reasonably request to evidence (A) compliance by the City with legal requirements; (B) the truth and accuracy, as of the Closing Date, of the representations of the City; and (C) the due performance or satisfaction by the City at or before such time of all agreements then to be performed and all conditions then to be satisfied by the City.

##### 5. Termination of Agreement.

(a) If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to be satisfied by it pursuant to this Note Purchase Agreement, this Note Purchase Agreement shall terminate with the effect stated in Section 5(c) hereof.

(b) The Underwriter may terminate this Note Purchase Agreement, with the effect stated in Section 5(c) below, at any time after the date of this Note Purchase Agreement and at or before the Closing by notifying the City in writing or by telegram of its election so to do, if in the reasonable judgment of the Underwriter, between the date hereof and the Closing, the marketability of the Notes at the initial offering prices set forth in the Official Statement has been materially adversely affected by reason of any of the following:

(i) an amendment to the Constitution of the United States or the State of California is passed or legislation is introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States is amended or legislation

is recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation is favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision is rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling is made or a regulation or temporary regulation is proposed or made or any other release or announcement is made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the City or upon interest received on obligations of the general character of the Notes which, in the reasonable judgment of the Underwriter, may have the purpose or effect, directly or indirectly, of affecting the tax status of the City, its property or income, its securities (including the Notes) or the interest thereon, or any tax exemption granted or authorized by State of California legislation or, in the reasonable judgment of the Underwriter, materially and adversely affecting the market for the Notes or the market price generally of obligations of the general character of the Notes;

(ii) legislation enacted, introduced in the Congress or recommended for passage by the President of the United States or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter is made or issued to the effect that obligations of the general character of the Notes, or the Notes, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Resolution is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(iii) the declaration of war or engagement or significant escalation in major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(iv) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange;

(v) the imposition by the New York Stock Exchange or other national securities exchange, or by any governmental authority, of any material restrictions

not now in force with respect to the Notes or obligations of the general character of the Notes or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(vi) an order, decree or injunction of any court of competent jurisdiction, or an order, ruling, regulation or official statement by the Securities and Exchange Commission, or by any other governmental agency having jurisdiction of the subject matter, is issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Notes, or the issuance, offering or sale of the Notes, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(vii) any rating agency rating the Notes downgrades, suspends or withdraws (or announces its intent to downgrade, suspend or withdraw) any rating of the Notes, or issues any negative qualification with respect to the Notes (such as being placed on "credit watch" with negative implications or "negative outlook" or any similar qualification); or

(viii) any event occurs, or information becomes known that, 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.

(c) If this Note Purchase Agreement is terminated as herein provided, then the parties hereto will have no obligations to each other except as provided in Section 6.

#### 6. Expenses.

(a) The Underwriter shall pay all expenses incurred by it in connection with the offering of the Notes, including (1) the fees and disbursements of its counsel, and (2) the cost of qualifying the Notes for sale in various states chosen by the Underwriter and the cost of preparing or printing any "Blue Sky" or legal investment memoranda to be used in connection with such sale. If the Underwriter purchases the Notes, then the Underwriter shall pay costs and disbursements incurred by it in connection with the transactions contemplated herein and hereby, including the costs of travel by the Underwriter's personnel, the California Debt Advisory Commission Fee and related out-of-pocket expenses.

(b) Whether or not the Underwriter purchases the Notes, the Underwriter will not be obligated to pay, and the City shall pay all expenses incident to the performance by the City of its obligations hereunder (other than as set forth in Section 6(a)), including but not limited to (1) the fees and expenses of Bond Counsel; (2) charges made by rating agencies for the rating of the Notes; (3) the fees and expenses of the personnel and staff of the City designated to cooperate in the issuance and sale of the Notes; (4) printing and distribution of the Official Statement; (5) fees and expenses of The Depository Trust Company; and (6) the fees and expenses of any fiscal agent.

7. Miscellaneous.

(a) Except as otherwise specifically provided in this Note Purchase Agreement, all notices, demands and formal actions under this Note Purchase Agreement must be in writing and given by first-class mail (postage prepaid) or by personal delivery to the Underwriter and the City, respectively, at the following addresses:

(i) City of Sacramento  
915 "I" Street  
Historic City Hall, Third Floor  
Sacramento, California 95814  
Attn: City Treasurer

(ii) Stone & Youngberg LLC  

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San Francisco, California \_\_\_\_\_  
Attn: \_\_\_\_\_

(b) This Note Purchase Agreement inures to the benefit of and is binding upon the City and the Underwriter and their respective successors and assigns.

(c) All of the representations, warranties and covenants of the City and the Underwriter in this Note Purchase Agreement will remain operative and in full force and effect regardless of (1) any investigation made by or on behalf of the Underwriter or the City, or (2) delivery of any payment for the Notes hereunder.

(d) Section headings have been inserted in this Note Purchase Agreement as a matter of convenience of reference only. They are not a part of this Note Purchase Agreement and are not to be used when interpreting it.

(e) If any provision of this Note Purchase Agreement is held or deemed to be or is invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Note Purchase Agreement invalid, inoperative or unenforceable to any extent whatsoever.

(f) This Note Purchase Agreement may be executed in several counterparts, each of which will be regarded as an original and all of which will constitute one and the same document.

(g) This Note Purchase Agreement is governed by and is to be construed in accordance with the law of the State of California.

STONE & YOUNGBERG LLC,  
as Underwriter

By: \_\_\_\_\_

Title:

Accepted By:

CITY OF SACRAMENTO, CALIFORNIA

By: \_\_\_\_\_

Russell Fehr  
Treasurer

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Sacramento (the "City") in connection with the issuance of its 2010 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code and a resolution adopted by the City Council of the City on June 22, 2010 (the "Resolution"). In connection therewith the City covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Notes and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Notes (including persons holding Notes through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the City, acting in the capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, that has filed with the City a written acceptance of such designation.

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the official statement relating to the Notes, dated June \_\_, 2010.

"Participating Underwriter" shall mean Stone & Youngberg LLC.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

**SECTION 3. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of holders;
4. optional, contingent or unscheduled calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Notes;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the Notes.

(b) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board through the EMMA system.

SECTION 4. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 5. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the City.

SECTION 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(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 Notes, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Notes.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in a filing made with the MSRB in manner described in Section 3, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver.

SECTION 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, including any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 8. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 9. Duties Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees, and agents, harmless against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters, and Holders and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: July \_\_\_\_, 2010

**CITY OF SACRAMENTO**

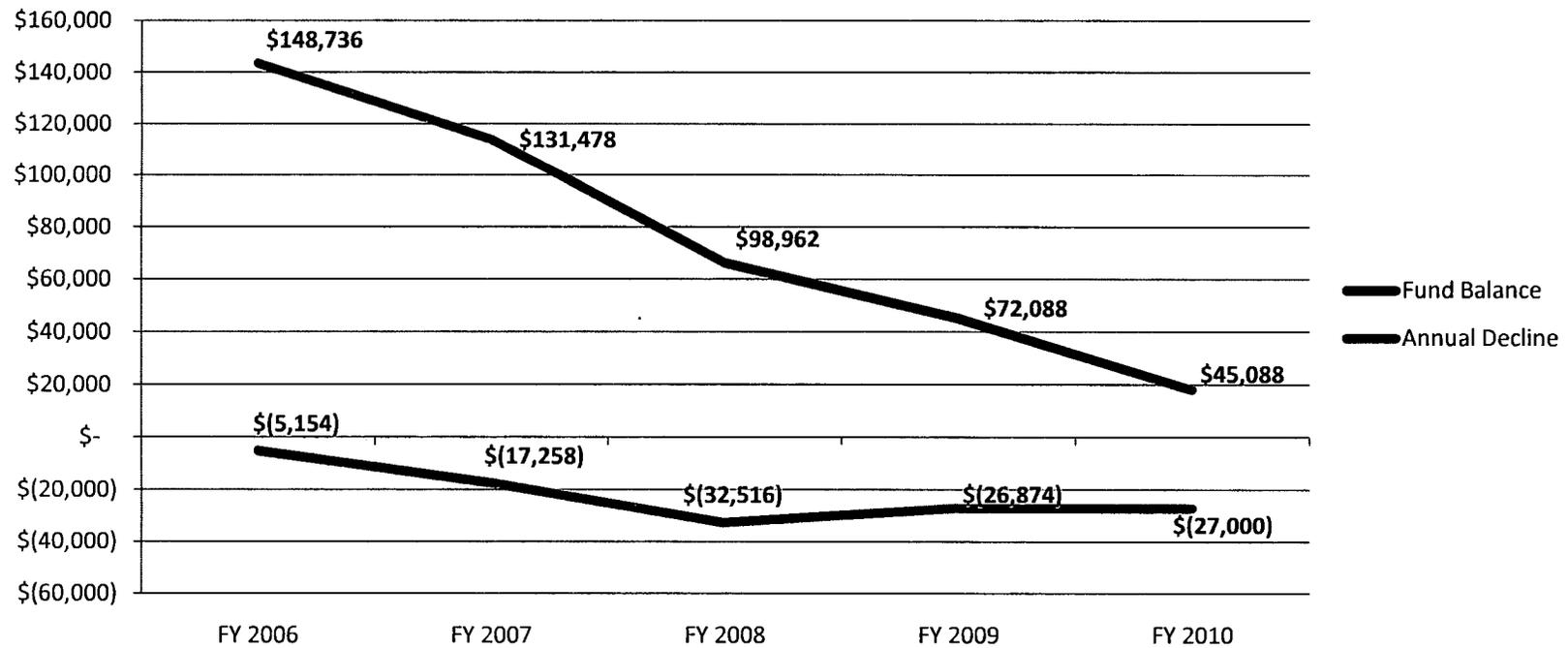
By: \_\_\_\_\_  
City Treasurer

# City of Sacramento Tax and Revenue Anticipation Notes

Presented to City Council  
June 22, 2010

# Decline in Fund Balance of General Fund

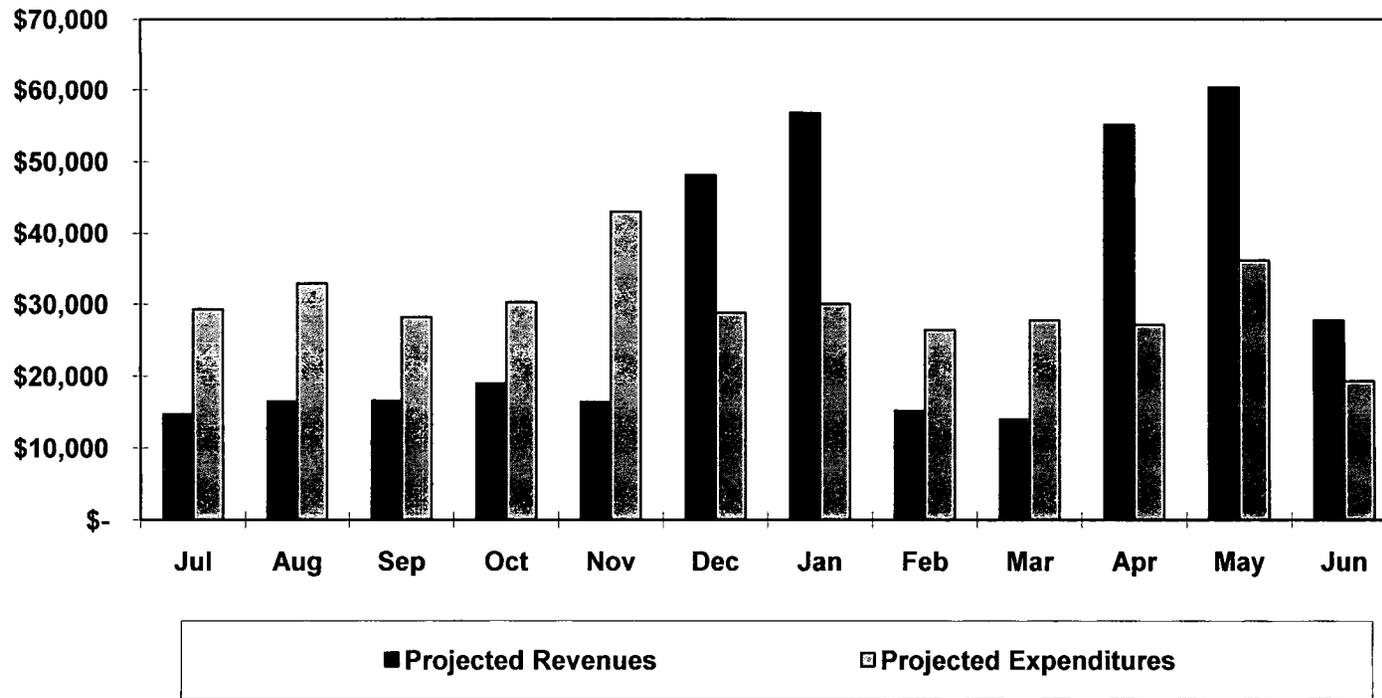
in Thousands (000)



FY 2010 covered periods July 2009 to February 2010 (unaudited)

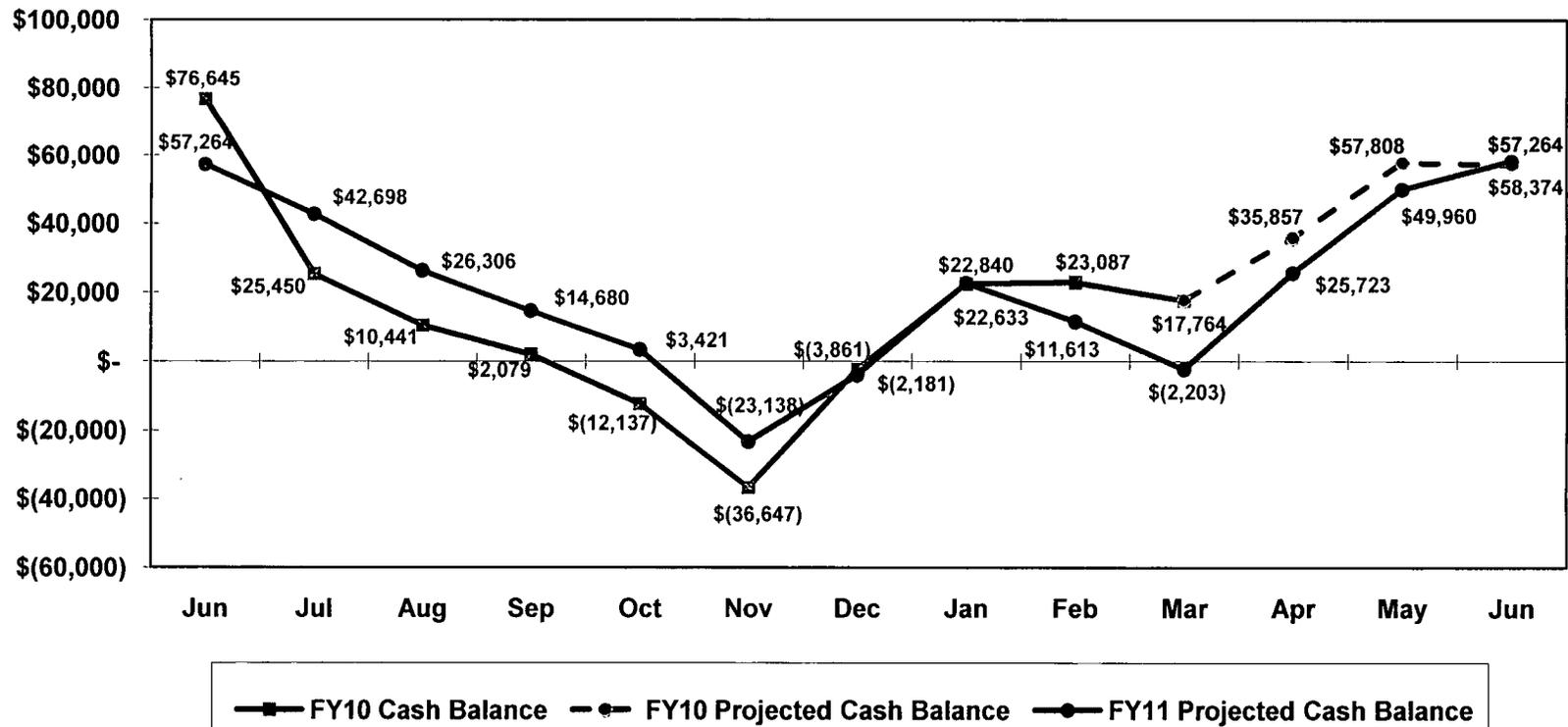
# General Fund Revenues & Expenses

## “Dry Period”



# General Fund Cash Flow –2010 & 2011

In Thousands (000)



# TRAN Structure

- Net proceeds: \$40 million
- Set-aside Payments
  - Jan. 27 2011                      1/3<sup>rd</sup> of principal & interest (≈\$13.5mm)
  - Apr 28 2011                        1/3<sup>rd</sup> of principal & interest (≈\$13.5mm)
  - May 26 2011                        1/3<sup>rd</sup> of principal & interest (≈\$13.5mm)
- Single Maturity – June 30, 2011
- Available rev. exceed TRAN principal by 9 times
- Available rev. + internal liquidity options exceed TRAN principal by 10.8 times