



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814

www.CityofSacramento.org

Meeting Date: 6/21/2011

Report Type: Staff/Discussion

Title: Authorize Issuance of Tax Revenue Anticipation Notes

Report ID: 2011-00388

Location: Citywide

Recommendation: 1) Adopt a Resolution authorizing the issuance and sale of the City of Sacramento 2011 Tax and Revenue Anticipation Notes ("TRANS") in an amount not to exceed \$50 million; 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 2011-12.

Contact: Janelle Gray, Debt Manager, (916) 808-8296, Office of the City Treasurer

Presenter: Janelle Gray, Debt Manager, (916) 808-8296, Office of the City Treasurer,

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2 Resolution of Issue for 2011 TRAN
- 3 Preliminary Official Statement.DOC
- 4 Appendix A to POS.DOC
- 5 Note Purchase Agreement.
- 6 Fiscal Agent Agreement
- 7 Agreement for Bond Counsel Services
- 8 Continuing Disclosure Certificate TRAN2011
- 9 Resolution Approving the Revenue and Expenditure Budget
10. TRAN 2011 overhead.

City Attorney Review

Approved as to Form
Joseph Cerullo
6/15/2011 5:03:07 PM

Prior Council Financial Policy Approval or
Outside City Treasurer Scope

Russell Fehr
6/14/2011 9:52:29 AM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 6/15/2011 4:34:15 PM

Assistant City Manager: Patti Bisharat - 6/15/2011 5:01:46 PM



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 2010, for example, the cash deficit was approximately \$30.6 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.” Staff noted that without sufficient cash reserves this deficit condition would likely occur again during the “dry period” in fiscal year 2011-12.

Based on the fiscal year 2011-12 budget proposal and cash-flow projections, the deficit in the General Fund during fiscal year 2011-12 is projected to be \$20 million. Staff recommends that the City cover the projected deficit in the General Fund during fiscal year 2011-12 by issuing short-term notes in the form of TRANs (i.e., tax-and-revenue-anticipation notes), the same way the City did in fiscal year 2010-11.

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 2011-12. To meet immediate cash-flow needs, staff recommends issuing short-term notes like the proposed TRANs. With prolonged financial pressures, staff anticipates that 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.

Staff recommends that such short-term borrowings be accomplished through the issuance of the proposed 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 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: This action is not subject to the CEQA because it is not a “project” as defined in section 15378 of the CEQA Guidelines.

Sustainability: 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 continue to gain valuable experience and exposure in 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 2011-12 budget, the projected cash flow indicates a negative cash balance in the General Fund of \$20 million. To ensure that adequate resources are on hand, staff recommends that the City issue TRANs to generate \$38 million in net proceeds, which provides an estimated \$18 million cushion. 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 2012, 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

TRAN Structure

- Estimated Net Proceeds: \$38 million
- Set-aside Payments
 - January 26, 2012 1/3rd of principal & interest (≈\$12.7mm)
 - April 26, 2012 1/3rd of principal & interest (≈\$12.7mm)
 - May 24, 2012 1/3rd of principal & interest (≈\$12.7mm)
- Single Maturity – June 29, 2012



RESOLUTION NO. 2011-_____

Adopted by the Sacramento City Council

PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2011-12 AND THE ISSUANCE AND SALE OF THE CITY OF SACRAMENTO 2011 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 2011-12 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 2011-12.
- 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 2011-12 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 2011-12.
- E.** Pursuant to Section 53856 of the Government Code, certain taxes, income, revenue, cash receipts, and other moneys of the City that will be received for, or accrued to, the General Fund during Fiscal Year 2011-12 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 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 2011-12, 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 2011 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 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 ("DTC"), is hereby appointed depository for the Notes. DTC 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 DTC 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 as follows:

(i) to any successor of Cede & Co., as nominee of DTC, 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 DTC 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 DTC 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 DTC (or its successor) because DTC (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 DTC 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 DTC 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 to, and 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 to, 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 may 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 DTC 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 shall 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 of like 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 of like 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 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 ensuring 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 2011 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 may 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 2010-11), 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 the law firm appointed as bond counsel for the Notes by Section 13 of this resolution ("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 2011-12 and are generally available for the payment of current expenses and other obligations of the City (the "Unrestricted Revenues") during Fiscal Year 2011-12. 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 2011 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 2011 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, 2012; (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, 2012; and (c) such amount from the Unrestricted Revenues received by the City during the monthly accounting period ending on May 31, 2012, 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 2011-12, 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 has 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 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, then 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, then the City will immediately set aside, from revenues attributable to the 2011-12 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 2011 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 will 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 will 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, then 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 may not exceed three percent (3.00%) per annum and the underwriter’s discount for the purchase of the Notes may 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, may 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 must be in accordance with the terms of the Notes and this resolution.

This appointment does 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 the Treasurer to appoint any successor Fiscal Agent. Any successor Fiscal Agent must have co-fiscal-agent relationships with one or more banks or trust companies that have 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 may 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, the 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 that they, or any of them, may deem necessary or advisable to consummate the lawful issuance and delivery of the Notes in accordance with this resolution.

Section 16. This resolution takes effect when adopted.

EXHIBIT A
[FORM OF NOTE]

REGISTERED

REGISTERED

No. R-__

\$_____

CITY OF SACRAMENTO
2011 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 2011 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 June 21, 2011 (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 _____, 2011.

CITY OF SACRAMENTO

By _____
City 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.

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2011

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, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See “TAX MATTERS” herein.

\$38,000,000*

**CITY OF SACRAMENTO, CALIFORNIA
2011 TAX AND REVENUE ANTICIPATION NOTES**

Dated: Date of Delivery

Due: June 29, 2012

The City of Sacramento, California (the “City”) 2011 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.

Principal Amount	Interest Rate	Yield	CUSIP No.†
\$38,000,000*	___%	___%	

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 2011-12 (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 2011-12 and which are generally available for the payment of current expenses and other obligations of the City during the Fiscal Year 2011-12. 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 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 __, 2011.

Stone & Youngberg

Dated: July __, 2011

* Preliminary; subject to change.

† Copyright 2011, 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 it be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

CITY OF SACRAMENTO, CALIFORNIA

Kevin Johnson
Mayor

CITY COUNCIL MEMBERS

Angelique Ashby
District 1

Jay Schenirer
District 5

Sandy Sheedy
District 2

Kevin McCarty
District 6

Steve Cohn
District 3

Darrell Fong
District 7

Robert King Fong
District 4

Bonnie Pannell
District 8

CHIEF CITY ADMINISTRATIVE PERSONNEL

William H. Edgar
Interim City Manager

Russell T. Fehr
City Treasurer

Eileen M. Teichert
City Attorney

Leyne Milstein
Finance Director

Shirley Concolino
City Clerk

FISCAL AGENT

U.S. Bank National Association

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 - "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO" in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involves 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.

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.

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.

\$38,000,000*
CITY OF SACRAMENTO, CALIFORNIA
2011 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTION

This Official Statement, which includes the attached Appendices, provides certain information concerning the sale and delivery of the 2011 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, 2011 and ending on June 30, 2012 (“Fiscal Year 2011-12”) 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 2011-12. 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 21, 2011 (the “Resolution”).

The Notes, which will mature on June 29, 2012 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.”

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

* Preliminary; subject to change.

Fiscal Year 2011-12 and which are generally available for the payment of current expenses and other obligations of the City (“Unrestricted Revenues”) during Fiscal Year 2011-12. 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 2011 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 2011 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, 2012; (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, 2012; and (c) such amount from the Unrestricted Revenues received by the City during the monthly accounting period ending on May 31, 2012, 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 “2011 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 \$40.4* million. As shown on Table 1 below, the City estimates 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 \$413 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 REVENUES AND AVAILABLE CASH BALANCE

Following is a table setting forth the City’s projection of Unrestricted Revenues and available cash balance. The table is based on the cash flow statements for the General Fund that follow 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 projected in Table 1 or in the Cash Flow Statements. See “City Financial Pressures.”

**TABLE 1
PROJECTED UNRESTRICTED REVENUE AND AVAILABLE
CASH BALANCE FOR FISCAL YEAR 2011-12**

(Dollars in Thousands)

SOURCE	AMOUNT
Property Tax	\$ 136,472
Sales & Use Tax	46,495
Utility User Tax	58,398
Other Taxes	16,106
License & Permits	10,455
Fines, Forfeitures and Penalties	12,395
Use of Money	1,467
Intergovernmental Revenues	14,827
Charges for Current Services	37,765
Contribution Other Funds	24,071
Miscellaneous Revenues	124
Subtotal:	\$ 358,575
Unrestricted Available	\$ 54,565
Cash Balance - June 30, 2011	\$ 54,565
TOTAL:	\$ 413,140

* Preliminary; subject to change.

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 balances were negative during parts of Fiscal Year 2008-09 and Fiscal Year 2009-10 and the negative balances were covered by interfund borrowings, and in Fiscal Year 2010-11 in which negative balances were covered by proceeds of the 2010 Tax and Revenue Anticipation Notes.

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 cash flow, 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 \$125 million to \$133.5 million in Fiscal Year 2010-11, and are projected by the City to be approximately \$112 million by the end of Fiscal Year 2011-12. 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 intervening 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 2010-11 amounts through the accounting period ended on April 30, 2011 and projected amounts through June 30, 2011 and projected cash flow for Fiscal Year 2011-12. Without the issuance of the Notes, the City would experience an estimated peak cash flow deficit of approximately \$32.4 million on or about December 15, 2012.

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 2011-12 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 in Appendix A under “CITY FINANCES - Impact of State Budget on City,” 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 2011-12, the City will continue to make required contributions to pension funds on a monthly basis. In the Fiscal Years 2008-09 and 2009-10, the City made all such payments for the entire Fiscal Year in July of each Fiscal Year.

4. The cash flows for Fiscal Year 2010-11 reflect the fact that the City utilized tax and revenue anticipation notes. Prior to Fiscal Year 2010-11, the City had not issued tax and revenue anticipation notes since 1995.

5. Continuing for Fiscal Year 2011-12, the General Fund's share of in-lieu tax on utilities will be transferred to the General Fund on a monthly basis. Prior to Fiscal Year 2010-11, such share was transferred semiannually.

Actual cash flows for the remainder of Fiscal Year 2010-11 and Fiscal Year 2011-12 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 affect 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, 2011
(\$ in 000's)

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u> <u>1-15</u>	<u>December</u> <u>16-31</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
Beginning Cash Balances														
<u>Receipts</u>														
Property Taxes														
Property Taxes In Lieu VLF														
Property Taxes in Lieu ST (Triple Flip)														
Sales and Use Tax														
Public Safety Sales Tax														
Utility Users Tax														
Transient Occupancy Tax														
Other Taxes														
Licenses and Permits														
Fines, Forfeitures, & Penalties														
Interest, Rents, Concessions														
Intergovernmental														
Charges, Fees, & Services														
Contributions From Other Funds														
Miscellaneous														
Transfers In														
Internal Borrowing Proceeds														
Total Receipts														
<u>Disbursements</u>														
Employee Services (Salary & Benefits)														
PERS Retirement														
SCERS Retirement Contribution														
Other Services & Supplies														
Property/Capital Outlay														
Debt Service														
Operating Transfers														
Internal Borrowing Repayment														
Total Disbursements														
Ending Cash Balance														

CITY OF SACRAMENTO
PROJECTED CASH FLOW STATEMENT – GENERAL FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2012
(\$ in 000's)

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u> <u>1-15</u>	<u>December</u> <u>16-31</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
Beginning Cash Balances														
<u>Receipts</u>														
Property Taxes														
Property Taxes In Lieu VLF														
Property Taxes in Lieu ST (Triple Flip)														
Sales and Use Tax														
Public Safety Sales Tax														
Utility Users Tax														
Transient Occupancy Tax														
Other Taxes														
Licenses and Permits														
Fines, Forfeitures, & Penalties														
Interest, Rents, Concessions														
Intergovernmental														
Charges, Fees, & Services														
Contributions From Other Funds														
Miscellaneous														
Transfers In														
Note Proceeds														
Total Receipts														
<u>Disbursements</u>														
Employee Services (Salary & Benefits)														
PERS Retirement														
SCERS Retirement Contribution														
Other Services & Supplies														
Property/Capital Outlay														
Debt Service														
Operating Transfers														
Internal Borrowing Repayment														
Total Disbursements														
Ending Cash Balance														

City Investments

The City Council delegates investment of all City funds to the Treasurer. The City's General Fund and trust fund account balances 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 consisting of representatives of the various entities which are investors in Pool A (including various City representatives, Sacramento City Employees' Retirement System, Sacramento Housing and Redevelopment Agency, Capital Area Development Authority, American River Flood Control District, The Natomas Basin Conservancy, Sacramento Public Library Authority, and several endowment funds) 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.

A 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 April 30, 2011 Pool A was invested in securities with an original cost of \$598,982,435 with an average of life of 1.26 years and an average weighted yield of 1.9%. As of April 30, 2011 the market value of the investments in Pool A was \$605,822,678.

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 - "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO" and APPENDIX B - "CITY OF SACRAMENTO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010." 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 continuing housing downturn, record high unemployment, a significant reduction in taxable sales, and increasing pension costs, the City is undergoing and will continue to be subject to significant financial stress. The Proposed Budget for Fiscal Year 2011-12 projects that overall General Fund revenues will be \$358.4 million, as compared to \$363.2 million in Fiscal Year 2010-11. Overall, there is a \$39 million funding gap to be closed with the adoption of the Budget. In addition, the five year forecast for the City’s General Fund shows the on-going gap between expenditures and revenues will grow by an additional \$23 million in the next two fiscal years.

Property Value

There have been and continue to be a significant number of foreclosures of properties in the City. The foreclosed properties being sold set market values at low levels. 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 6.6% from Fiscal Year 2008-09 to Fiscal Year 2009-10, and 2.9% from Fiscal Year 2009-10 to Fiscal Year 2010-11, and is projected to decline approximately another 1.0% in Fiscal Year 2011-12. City budget projections anticipate a decline in property tax revenues of approximately \$2.5 million in Fiscal Year 2011-12 (as compared to amounts contained in the Adopted Budget for Fiscal Year 2010-11). This decline is attributed to the decrease in assessed value, as well as a decrease in Supplemental Property Tax revenues. See APPENDIX A - “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances - Property Taxation Within the City.”

Several redevelopment project areas exist throughout the City. As described in “CITY FINANCES” in Appendix A, the City receives significant funding from the Sacramento Housing Redevelopment Agency (“SHRA”). The City has entered into a number of agreements with SHRA pursuant to which SHRA is obligated to make payments to the City from tax increment revenue in certain redevelopment areas, in an aggregate amount of approximately \$5.5 million annually to reimburse the General Fund for a portion of lease payments on certain of the City’s outstanding lease revenue bonds. In total, SHRA payments are expected to reimburse the City for approximately \$53 million of principal of such bonds. 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 tax increment will continue in the amounts currently contemplated, which would result in the General Fund having to pay a larger portion of debt service with respect to such obligations. In addition, the City receives tax increment revenues to offset a portion of the General Fund economic development costs. Finally, the Governor’s proposed budget for the State of California contains certain proposals with respect to redevelopment agencies which, if enacted, could possibly reduce or eliminate the availability of tax increment revenues to the City. See APPENDIX A - “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Impact of State Budget on City – Redevelopment Agencies” and “-- City Finances - General Fund Obligation.”

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. However, based on recent results and other factors, sales tax revenue for Fiscal Year 2011-12 is projected to be \$55.9 million, approximately \$2 million more than the amount contained in the Fiscal Year 2010-11 Adopted Budget. 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 2006-07, 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 \$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 General Fund positions), 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.

In Fiscal Year 2009-10, the City cut expenditures from the previous Fiscal Year's budget by approximately \$37 million through various program reductions across all General Fund departments; including the elimination of 387 permanent full-time equivalent positions. 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. At Fiscal Year 2009-10 mid-year the City projected that property taxes, sales taxes and certain other revenues for Fiscal Year 2009-10 would 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.

The Approved Budget for Fiscal Year 2010-11 balanced an estimated \$43 million funding gap through \$11.8 million in program and service level reductions, \$18.5 million in reductions related to employee service costs, and the use of \$12.7 million in one-time resources. The \$18.5 million in labor costs reductions include the elimination of approximately 240 positions and capturing approximately \$5.6 million in savings from labor concessions.

As part of the mid-year budget review in February 2011, the City transferred \$3.8 million to increase the City's Economic Uncertainty Reserve.

Fiscal Year 2011-2012 General Fund Budget

As the City struggles to emerge from the severe national recession, what many are referring to as the "Great Recession," City General Fund expenditures were initially forecast to exceed available revenues for the fifth year in a row. Despite significant expenditure reductions in prior

years, including the elimination of over 900 positions, consolidations, and renegotiated labor agreements, the City faced an initial projected General Fund budget gap of \$39 million for Fiscal Year 2011-12.

The initial projected budget deficit generally consisted of approximately \$9.2 million in revenue declines, approximately \$20 million in increased labor costs, approximately \$5.3 million in increased cost of services and supplies, and approximately \$4.2 million in increased costs of capital improvements (over the amount in the Fiscal Year 2010-11 Adopted Budget).

While the sales tax revenues are expected to increase by approximately \$2 million over the amount budgeted for Fiscal Year 2010-11, property taxes, interest earnings and other revenues continue to decline and approximately \$5 million of one time revenue utilized in Fiscal Year 2010-11 will not be available in Fiscal Year 2011-12. The increased labor costs reflect renegotiated labor contracts, required payments to the City’s pension plans and the addition of staffing of a new fire station. The increased expenditures for services and supplies reflect fleet replacement for the Police and Fire Departments. The increased cost of capital improvements reflects the necessary replacement to maintain essential public safety equipment including ambulances, fire trucks, defibrillators and fire station generators. Also included is funding for deferred maintenance of City assets.

The initial projected budget deficit has been closed with a combination of ongoing expenditure reductions, new/revised revenues and one-time funding strategies described in the table below. The Economic Uncertainty Reserve was not used in developing the budget and remains at \$14.3 million. [TO BE CONFIRMED] The Adopted Budget for Fiscal Year 2011-12 will transfer an additional \$3.3 million to the reserve.

Strategies	(Millions)
Labor Reductions	\$27.1
Service & Supply/CIP Reduction	4.8
Increased Revenues	2.4
Use of One-time Funding	4.6
TOTAL:	\$38.9

While the Fiscal Year 2011-12 General Fund Budget closes the initially projected \$39 million gap, over the next five years the structural deficit is projected to persist, growing to a peak of \$23 million in Fiscal Year 2013-14. The following chart reflects the ongoing projected structural deficit in the General Fund, and the growth over the five-year forecast period.

\$ in 000s	2011-12	2012-13	2013-14	2014-15	2015-16
Total Revenue/Resources	\$362,180	\$365,294	\$372,108	\$377,812	\$384,691
Total Expenditures	362,155	377,031	395,069	396,585	398,312
Annual Operating Surplus/(Deficit)	25	(11,737)	(22,961)	(18,773)	(13,621)

The City is taking a multi-faceted approach to closing the funding gap over a three year period. Service level reductions, employee compensation changes, and structural changes are being planned and implemented. Together, employee compensation and structural changes will be insufficient to close the funding gap; service level reductions are of greater magnitude and may be implemented more quickly.

Additional Financial Pressures

Local and broader economic conditions and trends will continue to put negative financial pressure on the City's General Fund. Economic forecasts for the Sacramento Region call for continuing weakness in employment and the real estate market. The State's budget problem is having direct and indirect impacts on the City's financial position. State funding of local programs is being reduced. As the largest employer in the region, the State's employment and employee compensation changes, as well as the dampening impact on local consumer confidence, have disproportionate impact on Sacramento. See APPENDIX A — "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances - Impact of State Budget on City."

Increasing pension and retiree medical benefit costs place additional pressure on the City. APPENDIX A - "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Employees' 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 year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, 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 XIII B of the State Constitution

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, 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 XIII B 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 XIII B provides that if a governmental entity’s revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two Fiscal Years.

Article XIII B 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 XIII B was amended to exclude from the appropriations limit “all qualified capital outlay projects, as defined by the Legislature” from proceeds of taxes. The Legislature has defined “qualified capital outlay project” to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City’s long term general fund lease obligations are generally excluded from the City’s appropriations limit.

The City’s appropriation limit for Fiscal Year 2011-12 is estimated to be \$574,424,000, for which expenditures subject to the appropriation limitation are \$309,583,000.

Articles XIII C and XIII D 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 added Articles XIII C and XIII D 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 XIII C 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 before November 6, 1998. The voter-approval requirements of Article XIII C 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 XIII C. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIII C. 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 XIII D 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 that exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments confer a "special benefit," as defined in Article XIII D, 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 parties, and (iv) a prohibition against fees and charges 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.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of

local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees that would have to be reduced or eliminated because of Proposition 26.

The City currently levies assessments for more than 57 service districts, maintenance districts and property and business improvement districts. These assessments are in excess of \$19.65 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 14 improvement districts under the California improvement district acts, which assessments were approximately \$15 million in Fiscal Year 2010-11. Each of such assessments 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; and (ii) litigation based on alleged Proposition 218 violations described in the grand jury report described above.

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 XIID; (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 *Guardino*, the California Legislature adopted Assembly Bill 1362, which provided that *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 former 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 1A 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. Bond Counsel, the City Attorney and underwriter's counsel undertake no 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, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of 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 2011-12. 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 “___” 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

The City is not aware of pending or threatened litigation 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 pending or threatened litigation 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.

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 \$ _____

(consisting of the principal amount of the Notes plus 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, 2010, 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 agreed, in a Continuing Disclosure Certificate executed by the City in connection with the issuance of the Notes, to report the occurrence of specified "events" to the Municipal Securities Rulemaking Board through its EMMA system. Pursuant to the Continuing Disclosure Certificate, the City is required to give notice of the occurrence of certain specified events with respect to the Notes in a timely manner not more than ten (10) business days after the event, including but not limited to principal and interest payment delinquencies; issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB); and rating changes.

The City must also give notice of the occurrence of certain specified events with respect to the Notes, if material, in a timely manner not more than ten (10) business days after the event, including but not limited to, unless described in the preceding paragraph, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Notes or other material events affecting the tax status of the Notes; or non-payment related defaults. 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 T. 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, 2010**

APPENDIX C
FORM OF BOND COUNSEL OPINION

APPENDIX D
CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section regarding DTC and its book-entry system has been obtained from DTC's website, for use in securities offering documents, and the City takes no responsibility for the accuracy or completeness thereof or for the absence of material changes in such information after the date hereof.

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 certificate will be issued for the Notes, in the aggregate principal amount of such issue and will be deposited with DTC.

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

Purchases of the 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 and 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 or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 DTC 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 securities 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults and proposed amendments to the Note 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.

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

Neither DTC nor Cede & Co. (nor 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).

Redemption proceeds, distributions and dividend payments 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 redemption proceeds, distributions and dividend payments 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 shall be 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 depository is not obtained, Note 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. The 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 capital 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 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. The other 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 sought to change the City from a “council-manager” form of government to a “mayor-council” form by creating an executive mayor separate from the City Council. A member of the public sued to prevent the measure from being placed on the ballot. In January 2010, before the City Council could 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 under the State Constitution the ends to be achieved (revising the City’s charter) cannot be achieved by the proffered means (a ballot initiative). In December 2010, the court signed a stipulated judgment ending this lawsuit, and the time for appealing the judgment expired in March 2011. The judgment makes the injunction permanent: the City is prohibited from ever taking steps to place the measure on the ballot.

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

William H. Edgar – Interim City Manager. Mr. Edgar’s career in local government service spans more than 40 years, with particular emphasis in trouble shooting, program development, local government finance and intergovernmental collaboration. He has previously served as both City Manager and Assistant City Manager for the cities of Sacramento and Pleasanton. In addition, he developed a successful record of inter-agency cooperation as the executive directors for the Sacramento Housing and Redevelopment Agency, the Sacramento Transit Development Agency, the Sacramento City/County Office of Metropolitan Water Planning and the Sacramento Area Flood Control Agency. Mr. Edgar has also served as a member and officer of the State Reclamation Board. His contributions to the community have been honored by the American Society of Public Administration, the League of California Cities, the League of Women Voters and the Modern Transit Society of Sacramento.

Betty Masuoka – Interim Deputy City Manager. Ms Masuoka recently returned to the City, where she had previously worked from 1981 until 2004. During her prior time with the City, she held a variety of positions including Finance Director, and Assistant City Manager. She oversaw major projects and issues such as the construction of the new City Hall and the financing and construction of the Sheraton Grand.

From May 2010 to October 2010, Ms. Masuoka lead the City’s effort on the Convergence Project (funding and construction of a new arena). From 2004-2009, she held the position of Assistant General Manager from with the Sacramento Municipal Utility District overseeing operations including administrative services and customer services and distribution. Ms. Masuoka currently sits on the American Leadership Forum Board and the Asian Community Center Finance Committee. Other past community contributions include participating on the Sacramento Zoological Society Board, United Way Board and various other task forces.

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, and Police; she also serves as liaison with several joint power authorities (Sacramento Housing and Redevelopment Agency, Library, and Sacramento Employment and Training Agency). Before joining the City, 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 and serves 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 Master of Public Administration from the University of San Francisco.

John Dangberg - Assistant City Manager. Mr. Dangberg was appointed Assistant City Manager in May 2006. His areas of responsibility include the following departments: 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. Before 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.

Russell T. Fehr - City Treasurer. Mr. Fehr was appointed City Treasurer in May 2008. As Treasurer, he is responsible for investing City funds, banking, and debt management. Before being appointed City Treasurer, Mr. Fehr was the City's Finance Director, responsible for accounting, budgeting, revenue collection, and procurement functions. He has been a City employee since May 2004, and before that he was with the Sacramento County Executive's Office, where for 19 years 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. Ms. Teichert was appointed City Attorney of Sacramento on January 1, 2006. Before 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, and commercial and retail businesses. Ms. Teichert obtained her Juris Doctor, cum laude, from University of La Verne College of Law and was admitted to practice law in 1993. Ms. Teichert also has a Bachelor of Science in Journalism from the University of Oregon.

Shirley A. Concolino - City Clerk. Ms. Concolino was appointed City Clerk in December 2003. Before that appointment, she 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 before 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: the contract with the firefighters' unit expires in January 2012; Local 39's contract expires in June 2012; and the remaining contracts expire in June 2013. Salary and benefits for all units are defined until the contracts expire.

In February 2011, the City was informed that a newly formed association, Sacramento City Exempt Employees Association, was in the process of gathering signatures in an effort to become the representative of employees in the Exempt Management Unit, the Exempt Management Support Unit and the Confidential/Administrative Unit. These three units represent approximately 15% of the labor force. The union recognition process is covered in Article V of the City's Employer-Employee Relations Policy and the Meyers-Milias-Brown Act. In May 2011, the State Mediation and

Conciliation Service validated the signatures of the Exempt Management Support Unit. The remaining two units are still pending validation of signatures.

Employees Retirement Plans

Plan Description. The City provides defined benefit retirement benefits through the State of California’s Public Employees’ Retirement System (“CalPERS”) and the Sacramento City Employees’ Retirement System (“SCERS”). CalPERS is a multiple employer public-employee defined-benefit pension plan. 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 CalPERS. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and city ordinance. Copies of the CalPERS annual financial report and a separate report for the City’s plans within CalPERS may be obtained from the CalPERS-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 attached as Appendix B to the Official Statement.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
CALIFORNIA’S PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
Miscellaneous Employees
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2005	\$ 357	\$ 420	\$ 349	\$ 71	83%	\$ 138	52%
2006	418	487	398	89	82	153	58
2007	521	549	457	92	83	173	53
2008	510	617	510	107	83	178	60
2009	403	696	556	140	80	175	80

Source: CalPERS actuarial-valuations through June 30, 2009. The actuarial-valuation for the City through June 30, 2010 is expected to be available later in 2011.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
CALIFORNIA'S PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Safety Employees
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2005	\$ 751	\$ 823	\$ 730	\$ 93	89%	\$ 83	111%
2006	834	908	787	121	87	92	131
2007	989	971	853	118	88	100	118
2008	928	1,048	908	140	87	110	127
2009	687	1,135	946	189	83	110	172

Source: CalPERS actuarial-valuations through June 30, 2009. The actuarial-valuation for the City through June 30, 2010 is expected to be available later in 2011.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2006	\$ 365	\$ 395	\$ 365	\$ 30	92%	\$ 10	292%
2007	378	395	365	30	92	10	313
2008	355	392	360	32	92	9	356
2009	273	398	314	84	79	6	1,406
2010	280	395	297	98	75	5	1,848

Source: SCERS actuarial-valuations through June 30, 2010.

CalPERS has notified its members that as a result of the investment loss at the end of Fiscal Year 2008-09 it will require local-government employers to increase the percentage of employee salary they contribute to CalPERS in Fiscal Year 2011-12. The City's increase is estimated to be \$5 million in Fiscal Year 2011-12, increasing by an additional \$9-10 million cumulatively over the next two fiscal years. (This is in addition to annual rate adjustments.) This increase is expected to be offset in part by the fact that the number of employees with respect to which the City must contribute has declined as a result of the labor-force reductions implemented by the City in recent years to address the financial stress described herein. There are currently 4,225 active employees and 6,378 retirees participating in the City's CalPERS plan.

In June 2009, the CalPERS Board adopted changes to the asset-smoothing method and its policy on the amortization of investment gains and losses in order to phase in over a three-year period the impact of the -24% investment loss experienced by CalPERS in Fiscal Year 2008-09. The changes adopted were as follows:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market-value to 60%-140% of market-value on June 30, 2009. Increasing the corridor limits defers and amortizes the large losses incurred in Fiscal Year 2008-09.
- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market-value on June 30, 2010.
- Return to the 80%-120% of market-value corridor limits for the actuarial value of assets on June 30, 2011, and thereafter.
- Isolate and amortize all gains and losses during Fiscal Year 2008-09, 2009-10, and 2010-11 over fixed and declining 30-year periods (as opposed to the prior policy of a rolling 30-year amortization).

In February 2010, the CalPERS Board adopted a resolution requiring additional contributions for any plan or pool that, based on a market-value of assets basis, is not expected to increase its funded status by 15% by June 30, 2043, or reach a level of 75% funded status by June 30, 2043.

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 1,330 retirees and 85 active members of SCERS.

Because SCERS is closed to new members and has less than 100 remaining active members, the Actuarial Value of Assets is a 3-year smoothed market-value. Gains and losses are recognized over a three-year period. For June 30, 2006, the first year of this method, the Actuarial Asset Value was set equal to the Market Value. The Actuarial Value of Assets is limited by a 15% corridor, meaning the Actuarial Value of Assets will be no greater than 115% of Market Value of Assets and no less than 85% of Market Value of Assets. The increase in the annual contribution to SCERS from Fiscal Year 2009-10 to Fiscal Year 2010-11 resulted from investment losses in Fiscal Year 2008-09. This pension plan was closed to new members in 1977.

The table below summarizes the City’s contributions to its defined benefit pension plans.

**CITY OF SACRAMENTO
ANNUAL CONTRIBUTION TO RETIREMENT PLANS
(\$ in millions)**

Fiscal Year	CalPERS	SCERS	Total City Contribution	Total General Fund Contribution
2008-2009	\$41.7	\$3.2	\$44.9	\$37.2
2009-2010	44.6	3.4	48.0	40.0
2010-2011	48.2	10.5	58.7	48.3
2011-2012*	49.1	10.4	59.5	48.6

*Estimate.

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 are required to

contribute 5% and 2% and the City contributes 4% and 2%, respectively, of covered salary. For the year ended June 30, 2010, employees contributed \$2,701,000 and the City contributed \$2,194,000 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. To be eligible for these benefits, an 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 retiree health 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. 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 30-years. The current ARC rate is 11.7 percent of annual covered payroll. The following table shows the components of the City’s annual OPEB cost for Fiscal Year 2009-10, the amount contributed to the plan, and the changes in the City’s net OPEB obligation.

**CITY OF SACRAMENTO
ANNUAL OPEB COST COMPONENTS
FISCAL YEAR 2009-10
(\$ in Thousands)**

Annual required contribution (ARC)	\$ 30,851
Interest on beginning OPEB liability	1,796
Adjustment to the ARC	(3,139)
Annual OPEB cost	29,508
Contributions made	(11,064)
Increase in net OPEB obligation	18,444
Net OPEB obligation - Beginning of year	42,256
Net OPEB obligation - End of year	\$ 60,700

Source: The City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

The City’s annual OPEB cost, actual contributions, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, were as follows:

**CITY OF SACRAMENTO
ANNUAL OPEB COST, ACTUAL CONTRIBUTIONS,
ANNUAL COST CONTRIBUTED, AND NET OBLIGATION
(\$ in Millions)**

Fiscal Year	Annual OPEB Cost	Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 31.5	\$ 10.5	33%	\$ 21.0
6/30/2009	32.6	11.4	35%	42.2
6/30/2010	29.5	11.0	38%	60.7

Source: The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

The table below summarizes the funded status of the City's OPEB plan as of the most recent biennial actuarial-valuation dates. Additional information regarding the City's OPEB plan, annual OPEB costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 9 to the City's audited financial statements attached as Appendix B hereto.

**CITY OF SACRAMENTO
OPEB TREND INFORMATION
(\$ in Millions)**

Actuarial Valuation Date (June 30)	Actuarial Accrued Liability (AAL)	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2007	\$ 380	--	\$ 380	0.00%	\$ 266	142.9%
2009	376	--	376	0.00%	275	136.7

Source: The City's OPEB actuarial-valuations through June 30, 2009.

CITY FINANCES

City Budget

The City Council annually adopts an operating and capital-budget 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, 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 that 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 by the

City Manager as required by City Charter at least 60 days before the start of the fiscal 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 Fiscal Year 2011-12 budget, the City continued its comprehensive review and evaluation of current services and programs that categorized each service as mandatory, essential, or existing. 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").

Following the amendment of the budget 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 2011-12 was adopted on June 21, 2011, and is available on the City's website, www.cityofsacramento.org. Information on the website is not incorporated into this Official Statement.

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

The following table shows the adopted budget for Fiscal Year 2010-11 and the proposed budget for Fiscal Year 2011-12.

CITY OF SACRAMENTO - GENERAL FUND BUDGETS
(\$ in Thousands)

	2010/11 Adopted	2011/12 Proposed
AVAILABLE FUNDS:		
Property Taxes	\$ 124,410	\$ 121,925
Sales and Use Taxes	53,995	55,978
Utility Users Tax	57,820	58,398
Other Taxes	21,917	21,170
Licenses and Permits	9,378	10,455
Fines, Forfeitures and Penalties	10,816	12,395
Use of Money	3,292	1,467
Intergovernmental Revenue	15,729	14,827
Charges, Fees and Services	39,861	37,765
Other Revenues	124	124
Transfers from Other Funds	29,153	24,071
Revenue Loss	--	--
Total Resources:	\$ 366,495	\$ 358,575
REQUIREMENTS:		
Current Operations:		
Employee Services	\$ 339,709	\$ 334,772
Other Services and Supplies	91,535	89,443
Equipment	3,003	
Debt Service	24,426	24,289
Labor/Supply Offset	(93,308)	(97,951)
Use of Contingency	1,000	1,000
Operating Transfers	N/A	901
Subtotal Current Operations:	\$ 366,365	\$ 352,454
Capital Improvements:		
General Government	\$ 69	\$ 1,083
Public Safety	--	2,207
Public Facilities/Development	--	
Culture and Leisure	--	--
Subtotal Capital Improvement:	69	3,290
Total Requirements:	\$366,434	\$362,155
Operational Surplus (Deficit)	\$ 61	\$ --
Other Financing Sources:		
Beginning Undesignated Fund Balance:	\$ --	\$ --
Other	--	3,605
Total Other Sources:	\$ --	\$ 3,605
Ending Undesignated Fund Balance:	\$ 61	\$ 25
Fund Balance Reserve for Economic Uncertainty:	\$ 10,500	\$ 14,300

Source: City of Sacramento.

The final Fiscal Year 2009-10 operating results provided an operating budgetary surplus of \$3.8 million. The \$3.8 million was added to the General Fund Economic Uncertainty Reserve during the Fiscal Year 2010-11 Midyear Review bringing the fund-balance reserve for Economic Uncertainty up to \$14.3 million.

General Fund Financial Summary

The information contained in the table on the following page is summarized from audited financial statements for Fiscal Years 2005-06 through 2009-10 of the City.

**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
(\$ in Thousands)**

	Actual 2005-06	Actual 2006-07	Actual 2007-08	Actual 2008-09	Actual 2009-10
REVENUES:					
Property Taxes	\$ 126,100	\$ 145,376	\$ 150,901	\$ 151,551	\$ 140,013
Sales and Use Taxes	58,523	56,441	54,821	48,905	45,670
Utilities Use Tax	56,243	55,618	57,561	57,775	58,700
Other Taxes	27,764	24,430	20,539	17,495	15,937
Licenses and Permits	18,288	18,064	18,785	15,263	12,709
Fines, Forfeitures and Penalties	6,672	6,938	8,597	10,999	11,131
Interest, Rents and Concessions	5,724	7,870	3,173	861	(88)
Intergovernmental Revenues	16,103	20,863	16,039	16,833	15,294
Charges, Fees and Services	33,147	32,580	32,841	44,153	41,737
Other Revenues	1,279	281	831	180	142
Total Revenues:	<u>\$ 349,843</u>	<u>\$ 368,461</u>	<u>\$ 364,088</u>	<u>\$ 364,015</u>	<u>\$ 341,245</u>
EXPENDITURES:					
General Government	\$ 29,729	\$ 30,451	\$ 32,946	\$ 29,014	\$ 24,009
Public Safety	201,193	220,224	225,263	229,653	230,225
Public Works	19,243	22,600	22,713	22,846	19,425
Neighborhood Services	72,308	80,735	83,593	72,116	56,493
Non-Departmental	24,202	17,708	26,993	25,336	26,330
Capital Improvements	8,517	30,199	16,839	9,005	4,918
Debt Service	841	721	1,736	9,746	1,189
Total Expenditures:	<u>356,033</u>	<u>402,638</u>	<u>410,083</u>	<u>397,716</u>	<u>362,589</u>
Excess of Revenues over Expenditures	\$ (6,190)	\$ (34,177)	\$ (45,995)	\$ (33,701)	\$ (21,344)
OTHER FINANCING SOURCES (USES):					
Transfers from Other Funds	\$ 20,527	\$ 26,206	\$ 24,814	\$ 33,540	\$ 23,948
Transfers to Other Funds	(19,491)	(26,058)	(32,281)	(28,776)	(24,136)
Proceeds from Long-Term Debt	--	16,771	2,155	--	4,551
Proceeds from Sale of Property	--	--	--	2,992	--
Special Items	--	--	18,791	(929)	--
Total Other Financing Sources (Uses):	<u>\$ 1,036</u>	<u>\$ 16,919</u>	<u>\$ 13,479</u>	<u>\$ 6,827</u>	<u>\$ 4,363</u>
Net Change In Fund Balance	(5,154)	(17,258)	(32,516)	(26,874)	(16,981)
Fund Balance Previously Reported	153,426	148,736	131,478	98,962	\$ 72,088
Prior period adjustment	464	--	--	--	--
Fund Balance, beginning of year, restated	<u>\$ 153,890</u>	<u>\$ 148,736</u>	<u>\$ 131,478</u>	<u>\$ 98,962</u>	<u>\$ 72,088</u>
Fund Balance, end of year	<u>\$ 148,736</u>	<u>\$ 131,478</u>	<u>\$ 98,962</u>	<u>\$ 72,088</u>	<u>\$ 55,107</u>
LESS RESERVES AND DESIGNATIONS:					
Non-Current Assets	\$ 1,074	\$ 987	\$ 1,604	\$ 969	\$ 514
Encumbrances	14,089	17,070	8,947	5,189	6,301
Prepaid Item	--	--	449	316	304
Designated for Economic Uncertainty	30,000	30,000	33,100	10,540	10,540
Designated for Fiscal Year 2011 Fire Budget	--	--	--	--	1,000
Designated for Future Labor Costs	9,300	--	--	--	--
Designated for Future PERS Costs	7,800	--	--	--	--
Designated for Balanced Budget	--	29,186	492	11,339	3,800
Designated for High Priority Capital Needs	--	5,432	--	--	--
Designated for Disaster Recovery	6,000	--	--	--	--
Designated for Growth Initiatives	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 Capital Projects	36,604	29,280	28,942	25,925	24,157
Designated for Subsequent Years' Expenditures	28,263	17,523	14,058	16,150	8,489
Fund Balance Available for Appropriation	<u>\$ 2,106</u>	<u>\$ 2,000</u>	<u>\$ 1,000</u>	<u>\$ 875</u>	<u>\$ --</u>

Source: City of Sacramento.

Financial Schedules

A copy of the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010 is attached as Appendix B to the Official Statement. 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 City's Finance Department or may be obtained from <http://www.cityofsacramento.org/finance/accounting/reporting.cfm>. Information on the website is not incorporated into this Official Statement. Macias Gini & O'Connell LLP Sacramento, California, performed the financial statement audit for the City for the fiscal year ended June 30, 2010.

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, which added Article XIII A to the State Constitution.

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 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 homeowner's and business-inventory exemptions. Tax revenues lost as a result of the homeowner's exemption are reimbursed by the State based on the total taxes that 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 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 2001-02 through 2010-11.

**GROSS ASSESSED VALUES
FOR ALL TAXABLE PROPERTY⁽¹⁾
(\$ in Thousands)**

Fiscal Year	Secured Roll	Unsecured Roll	Public Utility	Total
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
2010-11	36,388,660	1,742,828	11,977	38,143,465

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

⁽²⁾ 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. The table below summarizes property-tax revenues derived from the Secured Rolls from Fiscal Year 2001-02 to Fiscal Year 2010-11.

Property Tax Revenues	
Fiscal Year	Current Secured
2001-2002	\$47,856,588
2002-2003	49,975,253
2003-2004	56,252,512
2004-2005	59,130,256
2005-2006	67,732,223
2006-2007	80,513,714
2007-2008	86,512,564
2008-2009	88,326,770
2009-2010	82,698,410
2010-2011	77,701,044

Source: City of Sacramento Revenue Division.

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 beginning in Fiscal Year 2007-08. In addition, the assessed values of a large number of properties in the City have been reduced pursuant to Proposition 8. (Proposition 8 generally provides for temporary reductions in assessed valuations of properties to reflect current market-values.) Assessed valuation in the City declined by approximately 6.6% from Fiscal Year

2008-09 to Fiscal Year 2009-10, with an additional decline of 2.9% from Fiscal Year 2009-10 to Fiscal Year 2010-11. The Adopted Budget for Fiscal Year 2011-12 anticipates a further decline in assessed values of 1% and decline in property-tax revenues of approximately \$2.5 million (as compared to amounts contained in the Adopted Budget for Fiscal Year 2010-11). This decline is attributed to both the decrease in assessed value, and a decrease in Supplemental Property Tax revenues.

The following table lists the City’s largest local secured taxpayers for the fiscal year ending June 30, 2010. Many of the largest taxpayers are owners of commercial office space in downtown Sacramento.

**CITY OF SACRAMENTO
LARGEST LOCAL SECURED TAXPAYERS
AS OF JUNE 30, 2010
(\$ in Thousands)**

<u>Property Owner</u>	<u>Assessed Valuation</u>	<u>% of Total</u>
Hines VAF II Sacramento	\$ 479,887,616	1.23%
Teachers Ins. Annuity	168,732,070	0.43
300 Capitol Assoc NF LP	135,252,000	0.35
Arden Fair Assoc	130,092,242	0.33
CIM J Street Hotel Sac	129,851,859	0.33
Downtown Plaza LLC	128,746,520	0.33
CLPE Promenade LP	125,264,667	0.32
621 Capitol Mall LLC	95,387,437	0.24
M H Realty Partners VI LP	91,153,795	0.23
Sacramento Equities REIT	89,250,000	0.23
Net Assessed Value Total:	\$38,957,310,357	4.02%

Source: The City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

Other Taxes

Sales and Use Tax. The City 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.

Proposition 172 was approved by the voters to permanently extend the one-half cent sales tax beyond December 21, 1993. The legislation requires that the sales tax will continue to be deposited to the Public Safety Augmentation Trust Fund for distribution to counties 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.

In November 2004, the voters approved Measure A to extend the sales-and-use tax rate in Sacramento County by one-half percent for a period of 30 years (2009-2039). 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.

As part of the 2003-04 State budget signed by the Governor of the State 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 budget deficits, which are payable from a fund established by the redirection to the State of one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdictions, 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 was 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 Fiscal Year 2004-05 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 smaller sales-tax and greater property-tax allocations. This will remain in effect until the State's economic-recovery bonds have been retired. See also "Impact of State Budget on City" below.

As a result of the recent economic recession, sales-tax revenues to the City have declined by almost 25% over a four year period between Fiscal Years 2007-08 and 2010-11. However, revenue from sales in the fourth quarter of 2010 increased by approximately two percent from prior year's end, and sales taxes for Fiscal Year 2011-12 are projected to increase by \$2 million over the amount contained in the Fiscal Year 2010-11 Adopted Budget.

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 7.00% and expanding the scope of the tax to include new communication technologies. All other utility-tax rates remain at 7.50%. 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. The utility-user tax in the Proposed Budget for Fiscal Year 2011-12 is projected to increase by \$578,000.

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 (0.5%), and the Sacramento Convention and Visitors Bureau (0.5%). The General Fund component of transit-occupancy tax in the Proposed Budget for Fiscal Year 2011-12 is projected to increase by \$124,000, compared to of \$2.48 million.

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 State Constitution limits the City's ability to raise taxes without a vote of the electorate. In addition, Proposition 218 (which added Articles XIIC and XIID to the State Constitution in 1996) imposes

significant limitations relating to the imposition of rates, fees, 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. City staff and the City Council have taken steps to eliminate those ongoing practices identified in the Grand Jury Report that were determined not to comply with Proposition 218, which will require other City departments to pay additional amounts (approximately \$1.5 to \$2.0 million annually) for various utility services provided by the Department of Utilities (“DOU”). More specifically, as of July 1, 2010, all other City departments began to pay standard rates for all utility services provided by DOU, except for the volumetric component of the water rate and the garbage- and recycling-collection rates charged to City Parks and the volumetric component of the water rate charged to the City Cemetery; the latter rates are being progressively increased over a three-year period, so that they will be equal to the standard rates as of July 1, 2013. To cover the cost of these services in Fiscal Year 2011-12, the fiscal impacts to the other City departments will result in an increase in budgeted expenditures in the amount of approximately \$318,000 to the General Fund and approximately \$0 to other City funds.

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 certain Proposition 218 violations alleged in the Sacramento County Grand Jury Report described above. In June 2010 this lawsuit was settled and dismissed subject to the following requirements, among others: the City must charge all City departments the City’s standard rates for water and solid-waste-collection services provided by DOU, with a three-year phase-in for rates paid by City parks; all public events for which the City collects and disposes or recycles solid waste must pay the City’s standard rates; the City may not use rate revenues paid by solid-waste customers to fund the collection and disposal of trash from City trash containers located on City sidewalks and other City rights-of-way; and DOU must continue its pre-existing policy requiring reimbursement for the cost of providing employees or equipment to perform maintenance and repair work for non-DOU facilities.

A second lawsuit (*Rotz, Harry et al., v. City of Sacramento*, Sacramento County Superior Court, Case No. 34-2010-00078537) was filed against the City on May 24, 2010, based on the alleged Proposition 218 violations identified in the Sacramento County Grand Jury Report described above. It seeks relief on similar grounds as the Howard Jarvis Taxpayers Association lawsuit. The City filed an answer to this lawsuit in July 2010, and the lawsuit currently is in the discovery phase. This lawsuit may result in additional fiscal impacts, but at this time those impacts are unknown.

Finally, the City and the County of Sacramento currently have sued each other over the County’s repeated failure to pay City storm-drainage charges for the Executive Airport property (*City of Sacramento v. County of Sacramento*, Sacramento County Superior Court, Case No. 34-2009-00054835; *County of Sacramento v. City of Sacramento*, et al., Sacramento County Superior Court, Case No. 34-2009-00054635). The County’s complaint against the City includes allegations that the City’s storm-drainage charges do not comply with Proposition 218. These two lawsuits may result in additional fiscal impacts, but at this time those impacts are unknown.

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 in proportion 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, the 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 2.0%. The law further provided that the amount of the offset was to be backfilled to cities and counties by the State from moneys in the State's General Fund. Senate Bill No. 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 backfill 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 continuing 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 2.0% 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 2010-11 was proportional to growth in the equalized property-tax roll within the City, negative 7.5%. The estimated Fiscal Year 2011-12 VLF growth rate is negative 1.0%.

Proposition 1A was approved by the voters in November 2004 and amends the State Constitution to (1) prohibit the shift of property-tax revenues from cities, counties, and special districts, except to address a "severe state financial hardship" (and then only if (a) such amounts were agreed to be repaid with interest within three years, (b) the State had repaid certain other borrowed amounts, and (c) 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; (2) 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 the bonds are repaid; and (3) 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 by which local governments could "sell" their right to repayment to a joint-powers agency that could then issue bonds. The City followed this course of action, received a share of proceeds from a debt issue which resulted in no net loss of financing for Fiscal Year 2009-10. 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 eight years.

Information about the State Budget is regularly available at various State-maintained websites. The State Budget for Fiscal Year 2010-11 may be found at the website of the Department of Finance, 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. The information referred to is prepared by the 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 into this Official Statement.

On May 16, 2011, the Governor released the May Revision to the 2011-12 State Budget (the “May Revision”). The May Revision projects a budget gap of \$9.6 billion between revenues and spending and proposes to bridge the gap through tax extensions with some additional expenditures reductions. (In March, the Legislature passed the Governor’s proposed package of bills that cut government spending by approximately \$11 billion in cuts and enacted certain other solutions.) The May Revision also proposes a \$1.2 billion reserve.

The City cannot predict what actions will be taken with respect to Fiscal Year 2011-12 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.

As described below in connection with the proposed State Budget for Fiscal Year 2011-12, the Governor has proposed elimination of the current funding mechanism for redevelopment agencies. The City receives significant funds from the Sacramento Housing Redevelopment Agency, which it uses to pay a portion of lease payments (which would otherwise be payable from the City’s General Fund).

Governor’s Proposal to Eliminate Redevelopment Agencies

As described in the table containing the City’s General Fund obligations, the City receives significant funding from other sources that it uses to make payments with respect to several financings that would otherwise be payable from the City’s General Fund. One such source of funding is the Sacramento Housing Redevelopment Agency (“SHRA”). SHRA is a joint-powers agency that serves as the fiscal agent/administrator for the following six legal entities: the Housing Authorities of the City and the County of Sacramento, and the Redevelopment Agencies of the City and the County of Sacramento, and the City and the County of Sacramento themselves with regard to HUD-funded programs. SHRA has been delegated the responsibility for the development and implementation of certain housing, redevelopment, and selected economic-development programs and activities for the City and the County of Sacramento and their constituent entities. The City has entered into a number of agreements with SHRA and the entities it manages under which SHRA, on behalf of those entities, is obligated to make payments to the City from tax increment revenue from several redevelopment project areas, in an aggregate amount of approximately \$5.5 million annually through 2018, declining to annual average payments of \$2.56 million through 2037. Additionally, the City receives approximately \$1.95 million annually in tax-increment funds for economic-development activities.

The Governor’s Proposed Budget for Fiscal Year 2011-12, as revised in May 2011, would eliminate the redevelopment agencies by repealing their statutory authority to exist and operate, so that the property-tax-increment funding currently received by such agencies can be reprogrammed initially to fund state operations, with the future revenues allocated to the local taxing agencies (e.g., cities, counties, and school districts).

Draft legislation implementing the Governor’s proposal was released by the State Department of Finance on February 23, 2011 (the “Proposed Legislation”). On March 3, 2011, after making certain revisions to the Proposed Budget, the Joint Budget Committee of the State Legislature voted six to four in favor of the Proposed Budget (as revised), which includes the Proposed Legislation. The Proposed Legislation has been introduced and is currently embodied in Assembly Bill No. 101 and Senate No. Bill 77, as amended on March 15, 2011. On April 28, 2011, the State Legislative Counsel issued an opinion that the proposed reallocation of the tax increment revenues as set out in the Proposed Legislation violated the State Constitution, and many local agencies have argued that the Proposed Legislation also violates Proposition 22 enacted by the voters in November 2010. Two alternatives to the Proposed Legislation, Senate Bill No. 286 (introduced on April 27, 2011) and Assembly Bill No. 1250 (introduced on May 27, 2011), would retain the statutory authority for redevelopment agencies but modify how they may spend property-tax-increment revenues.

If enacted, the Proposed Legislation would, as of the date of enactment, prohibit existing redevelopment agencies from creating new contracts or obligations, and it would allow the filing of lawsuits to overturn contracts and obligations approved after January 1, 2011. The Proposed Legislation would establish successor agencies to administer each redevelopment agency’s existing “enforceable obligations” and would establish a series of special funds to effectuate the payments of such obligations and administer the transfer of property taxes to other local entities and the disposition of an agency’s other assets such as real property and cash. As defined in the Proposed Legislation, “enforceable obligations” include “loans of moneys borrowed by the redevelopment agency, for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms” and “any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy.”

The Proposed Legislation in its present form also purports to invalidate agreements between a redevelopment agency and the city that established the agency. This could include the agreements described above between SHRA and the City.

The City cannot predict whether the Proposed Legislation or any proposed alternative will be amended prior to enactment, or, if enacted, how it will be implemented. There can be no assurances that the enacted legislation will not interfere with the receipt by the City from SHRA and the City’s Redevelopment Agency of the amounts contemplated in the table below describing General Fund Obligation debt-service payments, or other funds used to support City economic development activities.

General Fund Obligation Debt Service Payments

The following table sets forth a summary of the City’s total annual General Fund Obligation debt-service payments as of June 30, 2011. General-obligation bonds are exempt from the tax-rate limitations imposed under Article XIII A of the State Constitution. Obligations set forth on the following table are payable from the City’s General Fund; however, the City utilizes amounts budgeted from certain enterprise and other funds as indicated in the following table. To the extent such other sources were unavailable, the General Fund would be responsible for such payments.

**GENERAL FUND OBLIGATION DEBT SERVICE
AS OF JUNE 30, 2011**

Fiscal Year	1993 ⁽¹⁾	1997 ⁽²⁾	1999 ⁽³⁾	1999 ⁽⁴⁾	2002 ⁽⁵⁾	2002 ⁽⁶⁾	2003 ⁽⁸⁾	2005 ⁽⁹⁾	2006 ⁽¹⁰⁾	2006 ⁽¹¹⁾	Capital, Small Equip. Leases, Adv., & Notes ⁽¹²⁾	Total Debt Service Obligations	Adj. ⁽¹³⁾ % of FY10-11 General Fund Rev.	Total Supported By Other Sources	Total Supported By General Fund	Adj. ⁽¹³⁾ % of FY10-11 General Fund Rev.	
	Lease Revenue Bonds	Lease Revenue Bonds	1999 ⁽³⁾ CFD 2 Lease	Capital Impr. Revenue	Capital Impr. Revenue	COP H St. Theatre	Capital Impr. Revenue	Ref. Rev. Bonds	Ref. Rev. Bonds	Capital Impr. Revenue Series A, B	Capital Impr. Revenue Series C,D,E						
2011	15,527,202	5,034,843	237,031	2,057,373	7,939,245	1,048,711	5,661,888	2,288,900	9,982,900	10,842,582	14,297,988	3,294,955	\$78,213,617	21.81%	\$49,068,317	29,145,300	8.13%
2012	15,509,721	5,215,525	240,781	2,059,303	7,926,961	1,052,226	5,651,375	2,287,144	9,980,800	10,834,456	14,292,588	3,130,941	\$78,181,822	21.80%	\$49,068,654	29,113,168	8.12%
2013	15,492,536	5,329,189	243,906	262,338	7,937,659	1,052,531	5,642,625	2,285,811	16,173,100	10,833,778	11,091,688	3,130,941	\$79,476,103	22.16%	\$50,473,892	29,002,211	8.09%
2014	15,479,208	5,435,933	246,406	264,499	7,922,610	1,051,712		2,281,039	16,248,725	10,816,758	11,093,892	3,130,941	\$73,971,724	20.63%	\$47,375,660	26,596,063	7.42%
2015	15,468,171	5,549,818	243,438	261,110	3,272,488	1,049,678		3,356,096	20,526,225	10,812,511	11,091,126	2,384,566	\$74,015,225	20.64%	\$48,255,933	25,759,292	7.18%
2016	15,437,935	5,549,818	245,000	261,860	2,359,531	1,051,448		3,510,934	21,427,600	10,805,696	11,091,683	2,046,708	\$73,788,212	20.58%	\$48,911,595	24,876,617	6.94%
2017	15,430,735	5,717,668	245,938	261,710	2,346,150	1,051,938		3,559,381	21,404,850	10,799,388	11,091,855	2,046,708	\$73,956,320	20.63%	\$49,070,186	24,886,135	6.94%
2018	15,408,975	5,708,586	251,094	260,980	2,845,325	1,051,108		3,612,686	20,886,350	9,225,313	11,090,825	1,265,130	\$71,606,372	19.97%	\$48,159,191	23,447,181	6.54%
2019	15,391,035	5,904,492	255,313	259,670		1,048,918		3,762,761	17,481,100	9,229,575	11,540,000	598,771	\$65,471,635	18.26%	\$42,363,483	23,108,152	6.44%
2020	15,369,890	6,037,154	253,750	262,635		1,050,215		2,591,754	17,425,225	9,212,048	11,573,525	583,332	\$64,359,527	17.95%	\$41,989,099	22,370,428	6.24%
2021	15,348,515	6,159,763	256,406	259,931		1,044,958		2,168,896	16,470,100	9,210,746	11,042,000		\$61,961,316	17.28%	\$40,869,617	21,091,699	5.88%
2022		6,349,569	262,969	261,563		1,047,831		279,601	16,337,475	9,198,629	12,755,675		\$46,493,312	12.97%	\$29,757,627	16,735,685	4.67%
2023		6,397,126	263,438	262,331		1,043,975		277,395	5,685,600	9,191,481	22,593,150		\$45,714,496	12.75%	\$26,849,465	18,865,031	5.26%
2024		6,598,858	262,969			1,043,000		279,754	5,537,225	9,182,750	22,126,169		\$45,030,724	12.56%	\$26,409,800	18,620,924	5.19%
2025		6,746,704				1,044,625		271,772	5,538,688	9,181,265	22,027,794		\$44,810,847	12.50%	\$26,505,527	18,305,320	5.11%
2026		6,906,557				1,044,500		273,375	5,527,644	9,171,351	22,043,856		\$44,967,282	12.54%	\$26,663,149	18,304,133	5.10%
2027		7,254,568				1,042,625		274,375	5,533,631	9,162,435	22,035,025		\$45,302,658	12.63%	\$27,007,047	18,295,611	5.10%
2028		7,728,334				1,039,000		274,875	5,537,250	9,163,419	22,039,475		\$45,782,352	12.77%	\$27,482,740	18,299,612	5.10%
2029						1,038,500		284,625	5,517,000	9,158,354	22,132,225		\$38,130,704	10.63%	\$19,788,187	18,342,517	5.12%
2030						1,036,000		288,500	5,514,500	9,146,692	22,135,788		\$38,121,480	10.63%	\$19,782,988	18,338,492	5.11%
2031						1,036,375		291,625		9,132,759	22,135,044		\$32,595,803	9.09%	\$15,427,678	17,168,124	4.79%
2032						1,034,500		289,125		9,130,306	22,137,375		\$32,591,306	9.09%	\$15,426,528	17,164,778	4.79%
2033						1,035,250		291,000		9,113,362	22,144,775		\$32,584,387	9.09%	\$15,427,455	17,156,931	4.78%
2034								292,125		9,106,001	5,639,300		\$15,037,426	4.19%	\$5,237,199	9,800,227	2.73%
2035										9,096,828	2,005,000		\$11,101,828	3.10%	\$3,219,631	7,882,197	2.20%
2036										9,074,993	2,004,250		\$11,079,243	3.09%	\$3,214,156	7,865,087	2.19%
2037										9,069,174			\$9,069,174	2.53%	\$2,101,328	6,967,846	1.94%

- (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 Improvement Revenue Bonds support: 17.27% Solid Waste, 82.73% SHRA (54.5% Loan and 12.17% Master Lease)
- (5) 2002 Capital Improvement Revenue Bonds support: 30.6% General Fund, 61.35% SHRA, 8.06% North Natomas Fund
- (6) Obligation is payable from H Street Theatre Revenues.
- (7) Refunded the 1991 COP(Public Facilities) and 1991 COP (Light Rail): 42.4% General Fund,57.6% Community Center Fund
- (8) 2003 Capital Improvement Revenue Bonds support: 65.41% - General Fund, 35.59% - North Natomas Fund
- (9) Refunded the 1999 CIRB (24.02%), 2000 CIRB (21.81%), 2001 CIRB (35.19%), 2002 CIRB (18.98%); Supported by SHRA 15.67%, Solid Waste 13.85%, Parking 12.40%, Water 34.92%, North Natomas Fund 1.5%, and Golf 0.58%
- (10) 2006 Capital Improvement Revenue Bonds, Ser A & B support: 78.83% General Fund, 17.99% SHRA, 5.18% Haggin Oaks
- (11) 2006 Capital Improvement Revenue Bonds, Ser C, D & E support: 44.54% General Fund, 46.77% Water fund, 6.73% North Natomas Fund, 1.15% SHRA (2002 ML Merged Downtown, ML Stockton Blvd, 2002, &Tax Allocation Merged Downtown), .79% Golf Fund
- (12) Capital, Small Leases, Advances and Notes support: 37.38% Solid Waste, 1.23% Marina
- (13) Data based on FY 12 General Fund Revenue Forecast.

Source: City of Sacramento

Interest Rate Swap

In 2007, the City entered into an interest-rate swap with Goldman Sachs Capital Markets, L.P. (the “Counterparty”) in connection with remarketing the Sacramento City Financing Authority’s (the “Authority”) \$73,725,000 1997 Lease Revenue Bonds (Arco Arena Acquisition) variable-interest-rate bonds (the “Arena Bonds”). The Arena 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, 2011, of \$65,780,000. 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 Arena Bonds. See Note 7 in Appendix B – “CITY OF SACRAMENTO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010.”

The City’s interest-rate swap entails risk to the City. Actual interest rates may vary from assumptions made at the time the swap was executed, and the City may not realize the expected financial benefits from the swap. 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 and pays pursuant to that swap, 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 the 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 current estimated amount of such termination payment that would be payable by the City, as of June 1, 2011, is approximately \$11.8 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. The City may enter into additional interest-rate swaps in the future.

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, 2011. 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.

**CITY OF SACRAMENTO
DIRECT AND OVERLAPPING BONDED DEBT
AS OF JUNE 31, 2011**

Assessed Valuation: \$38,143,460,664
 Redevelopment Incremental Valuation: 4,564,480,881
 Adjusted Assessed Valuation: \$33,578,979,783

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/11	Percentage Applicable ⁽¹⁾	City's Share of Debt 6/30/11
Los Rios Community College District	\$ 322,910,000	24.253%	\$ 78,315,362
Natomas Unified School District	186,282,156	87.960	163,853,784
Sacramento Unified School District	350,082,966	80.603	282,177,373
San Juan Unified School District	304,097,791	3.034	9,226,327
Twin Rivers Unified School District (former elementary school district bonds)	92,937,417	45.337	42,135,037
Twin Rivers Unified School District (former Grant Joint Union High School District bonds)	189,822,134	46.810	88,855,741
Robla School District	16,746,128	59.998	10,047,342
City of Sacramento Community Facilities Districts	166,890,000	100.	166,890,000
Elk Grove Unified School District Community Facilities District No. 1	149,041,480	11.643	17,352,900
Sacramento City Unified School District Community Facilities District No. 1	1,830,000	100.	1,830,000
City of Sacramento 1915 Act Bonds	16,280,000	100.	16,280,000
Sacramento Area Flood Control Agency Consolidated Capital Districts Assessment District	165,120,000	64.768	106,944,922
Sacramento Area Flood Control Agency Operation and Maintenance Assessment District	2,690,000	40.354	<u>1,085,523</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 984,994,311
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Sacramento County General Fund Obligations	\$ 355,019,478	29.031%	\$ 103,065,705
Sacramento County Pension Obligations	916,167,653	29.031	265,972,631
Sacramento County Board of Education Certificates of Participation	9,950,000	29.031	2,888,585
Los Rios Community College District Certificates of Participation	6,310,000	24.253	1,530,364
Natomas Unified School District Certificates of Participation	62,395,000	87.960	54,882,642
Sacramento Unified School District Certificates of Participation	80,465,000	80.603	64,857,204
Sacramento Unified School District Pension Obligations	3,200,000	80.603	2,579,296
San Juan Unified School District Certificates of Participation	1,732,857	3.034	52,575
Twin Rivers Unified School District Certificates of Participation	129,825,000	46.810	60,771,083
City of Sacramento General Fund Obligations	759,225,000	100.	759,225,000
Fulton-El Camino Recreation and Park District Certificates of Participation	270,000	18.540	<u>50,058</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 1,315,875,143
Less: Sacramento County supported obligations			\$ 2,052,492
City of Sacramento supported obligations			<u>468,595,477</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 845,227,174
GROSS TOTAL DIRECT DEBT			\$ 759,225,000
NET TOTAL DIRECT DEBT			\$ 290,629,523
GROSS TOTAL OVERLAPPING DEBT			\$ 1,541,644,454
NET TOTAL OVERLAPPING DEBT			\$ 1,539,591,962
GROSS COMBINED TOTAL DIRECT AND OVERLAPPING DEBT			\$ 2,300,869,454⁽²⁾
NET COMBINED TOTAL DIRECT AND OVERLAPPING DEBT			\$ 1,830,221,485

Ratios to 2010-11 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....2.58%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Direct Debt (\$759,225,000).....2.26%
 Net Combined Total Direct Debt (\$290,629,523)0.87%
 Gross Combined Total Direct and Overlapping Debt.....6.85%
 Net Combined Total Direct and Overlapping Debt5.45%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11:..... \$0

(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.

Source: CalMuni.

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.

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 as of January 1 for each year.

POPULATION ESTIMATES⁽¹⁾ CITY OF SACRAMENTO, COUNTY OF SACRAMENTO AND THE STATE OF CALIFORNIA FOR CALENDAR YEARS 1970 THROUGH 2011

Year	City of Sacramento	Average Annual % Change	County of Sacramento	Average Annual % Change	State of California	Average Annual % Change
1970	257,105		634,373		19,935,134	
1980	275,741	0.72%	783,381	2.35%	23,782,000	1.87%
1990	369,365	3.40	1,046,870	3.36	29,828,496	2.57
1995	384,300	0.81	1,120,733	1.41	31,910,000	1.45
2000	407,018	0.81	1,233,599	2.01	34,095,209	1.27
2001	415,218	2.03	1,272,218	3.13	34,766,730	1.65
2002	427,637	2.98	1,303,489	2.46	35,361,187	1.84
2003	436,470	2.07	1,333,245	2.28	35,944,213	1.68
2004	445,353	2.04	1,358,744	1.91	36,454,471	1.53
2005	453,592	1.85	1,378,538	1.46	36,899,392	1.32
2006	458,773	1.14	1,394,396	1.15	37,274,618	1.12
2007	467,120	1.82	1,410,678	1.17	37,655,193	1.04
2008	474,925	1.67	1,428,563	1.27	38,155,534	1.10
2009	481,356	1.35	1,440,500	0.84	38,476,724	0.98
2010 ⁽²⁾	466,279	-3.09	1,417,259	-1.61	37,223,900	-3.26
2011 ⁽²⁾	469,566	0.70	1,428,355	0.80	37,510,766	0.80

⁽¹⁾ Totals are estimates and may not add due to rounding.

⁽²⁾ The population estimates for 2010 and 2011 incorporate the 2010 Census Population Benchmark.

Source: State of California, Department of Finance 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 recession, unemployment levels throughout the country (including in the City) have significantly increased since Fiscal Year 2007-08.

Set forth below are 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
CIVILIAN LABOR FORCE, EMPLOYMENT AND
THE ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
FOR YEARS 2007 THROUGH 2010**

LABOR FORCE:	2007	2008	2009	2010
Labor force	677,100	680,000	681,400	674,600
Employment	640,500	631,400	604,500	588,300
Unemployment	36,700	48,600	76,900	86,300
Unemployment Rate	5.4%	7.1%	11.3%	12.8%
EMPLOYMENT INDUSTRY:				
Total All Industries ^[2]	911,000	890,200	839,800	816,100
Total Farm	7,900	8,200	8,300	8,300
Total Non-farm	903,000	882,100	831,500	807,900
Goods Producing	108,400	95,600	78,400	71,600
Natural Resources & Mining	700	700	400	400
Construction	66,900	56,200	43,500	38,300
Manufacturing	40,900	38,700	34,400	32,900
Service Providing	794,600	786,500	753,100	736,300
Trade, Transportation & Utilities	153,100	146,600	134,900	132,500
Wholesale Trade	27,900	26,500	24,100	22,600
Retail Trade	99,800	95,100	87,600	87,400
Transportation, Warehousing & Utilities	25,400	25,100	23,200	22,500
Information	20,100	19,200	18,300	17,200
Financial Activities	61,500	57,200	52,900	48,500
Professional & Business Services	112,100	110,100	101,100	101,800
Education & Health Services	97,100	99,700	99,800	99,000
Leisure & Hospitality	86,600	85,900	81,900	80,000
Other Services	29,000	29,600	28,800	28,100
Total Government	235,000	238,200	235,300	229,200
Federal Government	12,400	12,500	13,300	14,600
State and Local Government	222,700	225,800	222,100	214,600

⁽¹⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽²⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

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

The tables below represent 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 and financial services. Major public-sector employers include the State and the County. The data provided is through December 2010 and may not reflect subsequent layoffs or other reductions in work force.

**GREATER SACRAMENTO AREA
2010 MAJOR PRIVATE SECTOR EMPLOYERS**

Company	Type of Business	No. of Full-Time Employees
Sutter Health	Health Care	8,702
Mercy/Catholic Healthcare West	Health Care	6,976
Kaiser Permanente	Health Care	6,414
Intel Corporation	Semiconductor Manufacturer	6,000
Health Net of Inc.	Health Care	2,449
Wells Fargo & Co.	Financial Services	2,306
Vision Service Plan	Vision Benefits & Services	1,658
Aerojet	Design, Develop & Manufacturer	1,640
Delta Dental	Dental Benefits Provider	1,407
Save Mart Supermarkets	Retail Grocery	600

Source: Sacramento Business Journal Book of Lists 2010, December 2010.

**COUNTY OF SACRAMENTO
2010 MAJOR PUBLIC SECTOR EMPLOYERS**

Name of Employer	No. of Full-Time Employees
State of California	73,243
Sacramento County	11,260
UC Davis Health System	8,500
Elk Grove Unified School District	6,391
Sacramento Municipal Utility District	5,057
San Juan Unified School District	4,900
Sacramento City Unified School District	4,500
Los Rios Community College District	4,450
City of Sacramento	4,374
California State University Sacramento	2,386
Folsom Cordova Unified School District	1,850

Source: Sacramento Business Journal Book of Lists 2010, December 2010.

Building Permit Activity

The following table provides a summary of the City's annual building-permit valuations for calendar years 2007 through 2010, and a summary of the City's monthly building-permit valuations through April 1, 2011.

**CITY OF SACRAMENTO
NEW BUILDING PERMIT VALUATION
FOR YEARS 2007 THROUGH 2011
(\$ in Thousands)**

TYPE OF PERMIT	2007	2008	2009	2010	2011⁽¹⁾
RESIDENTIAL PERMIT:					
New Single-family	\$ 228,761,842	\$ 165,420,031	\$ 25,845,150	\$ 15,543,218	\$ 4,015,828
New Multi-family	83,840,728	68,034,957	5,898,259	14,384,334	23,957,000
Res. Alterations/Additions	113,668,150	99,934,096	95,547,289	96,241,639	35,734,858
Total Residential:	\$ 426,270,720	\$ 333,389,084	\$127,290,698	\$126,169,191	\$ 63,707,686
NON-RESIDENTIAL:					
New Commercial	\$ 161,927,905	\$ 185,320,673	\$ 36,498,829	\$ 18,290,705	\$ 1,500,000
New Industrial	11,535,251	7,168,805	--	--	--
Other	55,318,722	51,656,367	24,834,129	17,387,178	--
Com. Alterations/Additions	196,913,553	235,977,454	166,964,341	110,195,244	--
Total Non-Residential:	\$ 425,695,431	\$ 480,123,299	\$228,297,299	\$145,873,127	\$ 1,500,000
GRAND TOTAL:	\$ 851,966,151	\$ 813,812,383	\$355,587,997	\$272,042,318	\$ 65,207,686
NEW HOUSING UNITS:					
Single-family Unit	\$ 1,334	\$ 921	\$ 148	\$ 95	\$ 28
Multi-family Unit	7,65	698	68	96	150
Total New Dwelling Units:	2,099	1,619	216	191	178

Note: Totals may not add due to rounding.

⁽¹⁾ Total building-permit valuations as of April 1, 2011.

Source: Construction Industry Research Board, Building Permit Summary.

Commercial Activity

The following table shows a summary of historic taxable sales within the City.

**CITY OF SACRAMENTO
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
FOR YEARS 2006 THROUGH 2010
(\$ in Thousands)**

Type of Business	2005	2006	2007	2008	2009
Apparel	\$244,319	\$255,287	\$255,278	\$279,933	\$314,415
General Merchandise	700,577	728,658	732,031	635,959	486,181
Food	279,255	287,961	294,300	265,079	272,980
Eating & Drinking	615,212	654,795	673,734	690,946	675,035
Household Furnishings	146,232	124,357	93,626	155,001	245,042
Building Materials	528,628	498,946	363,840	274,463	222,703
Automotive	421,707	382,405	447,679	367,082	285,724
Service Stations	382,239	425,225	486,016	535,786	424,739
Other Retail	<u>721,612</u>	<u>742,340</u>	<u>690,971</u>	<u>576,099</u>	<u>444,823</u>
Retail Stores Total	<u>\$4,039,781</u>	<u>\$4,099,974</u>	<u>\$4,037,475</u>	<u>\$3,780,349</u>	<u>\$3,371,643</u>
All Other Outlets	<u>2,029,214</u>	<u>1,952,188</u>	<u>1,910,278</u>	<u>1,924,068</u>	<u>1,577,522</u>
TOTAL:	<u>\$6,068,995</u>	<u>\$6,052,162</u>	<u>\$5,947,753</u>	<u>\$5,704,418</u>	<u>\$4,949,165</u>

Source: State Board of Equalization



**CITY OF SACRAMENTO, CALIFORNIA
2011 TAX AND REVENUE ANTICIPATION NOTES**

NOTE PURCHASE AGREEMENT

[_____, 2011]

Mayor and City Council
City of Sacramento
915 I Street, Fifth Floor
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 2011 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 \$_____).

(b) The Notes will be dated [July __, 2011] and will mature June 29, 2012. The Notes will bear interest (payable at maturity) at _____% per annum; must be as described in the Official Statement (as hereinafter defined); and must be executed, delivered, and secured under and pursuant to Resolution No. 2011-__ adopted by the City Council (the “Council”) on June 21, 2011 (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.

(c) Pursuant to the Resolution, the City has approved the form and distribution of the Preliminary Official Statement dated [June __, 2011], (the “Preliminary Official Statement”) relating to the Notes and the distribution of an Official Statement, dated July __, 2011 (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.

(d) 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.

(e) 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 25th calendar day after the Closing Date, the City shall provide the Underwriter with such information regarding the City, its current financial condition, and its ongoing operations as the Underwriter may reasonably request.

(f) 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 __, 2011], 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 must 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 must 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 must 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 calendar 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, the Continuing Disclosure Certificate (as defined on the Official Statement), and the Fiscal Agent Agreement, dated as of July 1, 2011 (the “Fiscal Agent Agreement”), by and between U.S. Bank National Association, as Fiscal Agent (the “Fiscal Agent”). The Note Purchase Agreement, the Notes, the Resolution, the Continuing Disclosure Certificate, and the Fiscal Agent Agreement are collectively referred to herein as 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 and the Fiscal Agent Agreement will have been duly executed and delivered by the City and will be the legal, valid, and binding obligations of the City, enforceable against the City in accordance with their 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 as of the date hereof, 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, the Fiscal Agent Agreement, 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 (1) conflict with, or constitute a violation of, the City Charter or 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 (2) result in a breach of any of the terms, conditions, or provisions of, or constitute a default on, any resolution, agreement, or instrument to which the City is a party; or (3) 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 as of the date hereof, 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, the Fiscal Agent Agreement, 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 as of the date hereof, 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 after 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), then 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, 2010, 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 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 actions 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 the Fiscal Agent Agreement duly executed and delivered by the City and the Fiscal Agent, 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 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 and the Fiscal Agent Agreement have been duly executed and delivered by the City and (assuming due authorization,

execution, and delivery by and validity with respect to the Underwriter and the Fiscal Agent) constitute valid and binding agreements 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 charter 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, the Fiscal Agent Agreement, and the Continuing Disclosure Certificate, and the City has duly authorized, executed, and delivered the Official Statement, the Notes, this Note Purchase Agreement, the Fiscal Agent Agreement, and the Continuing Disclosure Certificate;

(v) the Notes, this Note Purchase Agreement, the Fiscal Agent Agreement, and the Continuing Disclosure Certificate are legally valid and binding obligations of the City enforceable against the City in accordance with their 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, the Fiscal Agent 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 as of the date of the opinion, the adoption of the Resolution and the execution and delivery of the Notes, the Fiscal Agent Agreement, 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 (A) conflict with or constitute on the part of the City a breach of, or default on, any agreement or other instrument applicable to, or binding upon, the City or any of its properties; or (B) violate the City Charter; or (C) violate 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 as of the date of the opinion, 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 (A) that contests in any way the completeness or accuracy of the Official Statement; or (B) 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 (C) 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, or the Fiscal Agent Agreement;

in each case subject to the exceptions 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) An opinion of counsel to the Fiscal Agent, to the effect that (i) the Fiscal Agent has duly authorized, executed, and delivered the Fiscal Agent Agreement; and (ii) the Fiscal Agent Agreement constitutes a legally valid and binding obligation of the Fiscal Agent, enforceable against the Fiscal Agent in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws in effect from time to time affecting the rights of creditors generally, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(6) 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 as of the Closing Date:

(i) the representations and warranties of the City contained in this Note Purchase Agreement are 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 their opinion 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.

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

(8) Evidence satisfactory to the Underwriter to the effect that the Notes have received a rating of “___” from Moody’s Investors Service and “___” from Fitch.

(9) 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, then this Note Purchase Agreement will 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 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 is enacted, introduced in the Congress, or recommended for passage by the President of the United States; or a decision is 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 is issued or made by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Notes, or the Notes themselves, 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 themselves, 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 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
One Ferry Building
San Francisco, CA 94111

(b) This Note Purchase Agreement inures to the benefit of, and is binding upon, the City and the Underwriter and their 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 non-material 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, or rule of public policy, or for any other reason, such circumstances shall not have the effect 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.

8. Relationship of the Parties.

The City acknowledges and agrees that (a) the purchase and sale of the Notes pursuant to this Note Purchase Agreement is an arm's-length commercial transaction between the City and the Underwriter; (b) in connection with such transaction, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the City (c) the Underwriter has not assumed a fiduciary responsibility in favor of the City with respect to the offering of the Notes or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the City on other matters) or any other fiduciary or contractual obligation to the City except the obligations expressly set forth in this Agreement; and (d) the City has consulted with its own legal advisors to the extent it deemed appropriate in connection with the offering of the Notes.

STONE & YOUNGBERG LLC,
as Underwriter

By: _____
Title:

Accepted By:

CITY OF SACRAMENTO, CALIFORNIA

By: _____
Russell T. Fehr
Treasurer

[SIGNATURE PAGE NOTE PURCHASE AGREEMENT]

**FISCAL AGENT AGREEMENT
(CITY OF SACRAMENTO 2011 TAX AND REVENUE ANTICIPATION NOTES)**

THIS FISCAL AGENT AGREEMENT (CITY OF SACRAMENTO 2011 TAX AND REVENUE ANTICIPATION NOTES) (the “Agreement”) is made and entered into as of July 1, 2011 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. 2011-_____ of the Sacramento City Council (the “Resolution”) authorizing the issuance of the City’s 2011 Tax and Revenue Anticipation Notes (the “Notes”) was adopted on June 21, 2011; 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 2011 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. Definition.

“**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 an 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. Except as provided in subsection (g) of this Section 3.3, the Fiscal Agent's only duties with respect to the Notes are the duties specified in the Resolution or this Agreement, including but not limited to the following:

(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 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 and records 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 will be excused from performing its obligations under this Agreement to the extent it cannot perform them because of unforeseeable causes beyond its reasonable control, 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 reasonable 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 an 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, then the prior Fiscal Agent or the City may petition a court of competent jurisdiction for the appointment of a successor Fiscal Agent.

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, then the resulting, surviving or transferee corporation without any further act will be the successor Fiscal Agent.

4.5 Certifications. 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 or its counsel.

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, will 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.

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

AGREEMENT FOR BOND COUNSEL SERVICES

CITY OF SACRAMENTO 2011 TAX AND REVENUE ANTICIPATION NOTES

This is an Agreement for bond-counsel services, dated as of April 1, 2011, between the City of Sacramento, a California municipal corporation (the "City"); and Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), as follows:

Recitals

- A. The City has engaged the services of Bond Counsel in connection with the City's authorization, issuance, sale, and delivery of one or more series of tax-and-revenue-anticipation notes relating to the City's Budget for Fiscal Year 2011-12 (the "TRANS"). The City and Bond Counsel desire to enter into this Agreement to evidence the engagement of Bond Counsel in connection with the TRANS and to specify the terms and conditions of such engagement.
- B. Bond Counsel possesses the necessary professional capabilities and resources to provide the legal services required by the City as described in this Agreement.

Agreements

1. The City retains Bond Counsel as special counsel to perform certain legal services for the City relating to the TRANS, as follows:
 - (a) Consultation with representatives of the City, including the City Treasurer and the City Attorney, the TRANS underwriter and its counsel, and others, with respect to the timing, terms, and legal structure of the TRANS.
 - (b) Preparation of documents to be adopted or entered into by City required for the authorization, issuance, sale, and delivery of the TRANS, including preparation of an authorizing resolution. Review of an official statement and TRANS purchase contract, which will be drafted by counsel to the underwriter .
 - (c) Attendance at such meetings or hearings of the City and the City Council and working-group meetings or conference calls as City may request, and assistance to City's staff in preparation of such explanations or presentations to the City Council as they may request.
 - (d) Review of certain documentation concerning the sale of the TRANS, but solely for purpose of reviewing those provisions that relate to the description of the terms of TRANS (such as the authorizing resolution).

- (e) Rendering of Bond Counsel's customary form of final approving opinion concerning the valid-and-binding nature of the TRANs and the tax-exempt status of interest on the TRANs.
 - (f) Preparation and delivery to the City of a transcript of the legal proceedings for the TRANs in both loose-leaf and CD ROM formats.
 - (g) After issuance of the TRANs, telephone consultations with City officials and staff to answer questions about the facts and circumstances concerning the TRANs.
2. The services of Bond Counsel under this Agreement do not include the following, although Bond Counsel may provide such services under separate agreement with the City:
- (a) Legal services in connection with litigation.
 - (b) Legal services related to compliance with the California Environmental Quality Act.
 - (c) Legal services in connection with arbitrage-rebate compliance respecting the TRANs.
 - (d) Legal services relating to state blue-sky laws or to title to, or perfection of security interests in, real or personal property; or financial analysis or advice.

Bond Counsel and the City acknowledge that the City retains the full-time services of the City Attorney and her staff to render day-to-day and ongoing legal services to the City. Bond Counsel shall circulate documents to, and coordinate its services with, the City Attorney to the extent requested by the City or the City Attorney. Bond Counsel may assume that the City Attorney or one of the attorneys on her staff has reviewed all documents and matters submitted to the City Council for adoption or approval, or to City officers for execution, before those documents and matters are adopted, approved, or executed.

3. In consideration of the services set forth in paragraph 1, the City shall pay to Bond Counsel the following fees and disbursements:
- (a) As legal fees, a flat amount of \$45,000.
 - (b) As payment of disbursements, including preparation and distribution of a transcript in loose-leaf and CD ROM formats, a flat amount of \$2,500.
 - (c) Except as provided in paragraph 4 respecting termination of this Agreement by the City, payment of legal fees and expense reimbursement are contingent upon the issuance, sale, and delivery of the TRANs, and the amounts owed will be due and payable forthwith upon presentation of an invoice by Bond Counsel following such issuance, sale, and delivery.

4. This Agreement and all legal services to be rendered under it may be terminated at any time by written notice from either party, with or without cause. In that event, all finished and unfinished documents prepared for adoption, approval, or execution by the City will, at the option of the City, become its property, and Bond Counsel shall deliver them to the City or to any party the City may designate; provided that Bond Counsel will have no liability whatsoever for any subsequent use of such documents. In the event of termination by the City, the City shall pay Bond Counsel forthwith for all satisfactory work, but such payment may not exceed the amounts specified in paragraphs 3(a) and 3(b) above. If, however, the City terminates for cause, then compensation, if any, is to be adjusted in the light of the facts and circumstances involved in the termination. If not sooner terminated as aforesaid, this Agreement and all legal services to be rendered under it will terminate upon issuance and sale of the TRANs; provided that the City will remain liable for any unpaid fees and expenses due under paragraph 3 above. Upon such termination, Bond Counsel will have no future duty of any kind to the City with respect to the TRANs, except as provided in paragraphs 1(f) and 1(g) above.
5. The role of bond counsel in financings, generally, is to prepare or review documents and to coordinate the procedures for authorization of the issuance, sale, and delivery of TRANs and to provide an expert legal opinion with respect to the validity of the TRANs and other subjects addressed by the opinion. Consistent with the historical origin and unique role of bond counsel, and the reliance thereon by the public-finance market generally, Bond Counsel's role as bond counsel under this Agreement is not the partisan role of an advocate. Instead, Bond Counsel's role is to provide legal documents needed for the issuance, sale, and delivery of the TRANs and to provide an opinion that represents an objective judgment on the matters addressed therein.

In performing its services as bond counsel in connection with the TRANs, Bond Counsel shall act as special counsel to the City with respect to issuance of the TRANs. In that capacity, Bond Counsel shall assist the City staff in representing the City, but only with respect to the sufficiency of the legal documents for the issuance, sale, and delivery of the TRANs and in a manner not inconsistent with the role of bond counsel described in the first paragraph of this paragraph 5.

Bond Counsel's function and responsibility under this Agreement, and as bond counsel with respect to the issuance of the TRANs, terminates upon the issuance, sale, and delivery of the TRANs (unless terminated sooner as provided in paragraph 4 above). Bond Counsel's services as bond counsel through issuance, sale, and delivery of the TRANs are limited to those contracted for explicitly in this Agreement. Any engagement of Bond Counsel with respect to rebate compliance, disclosure, or any other matter is separate and distinct from its engagement as bond counsel through issuance of the TRANs. However, unless otherwise provided, any such post-issuance engagement with respect to the TRANs will continue on the same basis set forth in this paragraph 5.

6. The City acknowledges that Bond Counsel regularly performs legal services for many private and public entities in connection with a wide variety of matters. For example, Bond

Counsel has represented, is representing, and expects to represent in the future other public entities (such as the County of Sacramento, the Sacramento Municipal Utility District, and the State of California), bond underwriters (such as Stone & Youngberg LLC), trustees, rating agencies, insurers, banks, credit-enhancement providers, lenders, contractors, suppliers, financial and other consultants and advisors, accountants, investment providers/brokers, providers/brokers of derivative products, and others who may have a role or interest in the TRANs or who may be involved with, or adverse to, the City in this or some other matter. Bond Counsel shall not represent any such entity (i.e., other private and public entities) in connection with the TRANs without the express written consent of the City. Given the special, limited role of bond counsel described in paragraph 5 above, the City acknowledges that no conflict of interest exists or would exist in connection with any matter other than the TRANs, and the City waives any such conflict of interest that might appear actually or potentially to exist, now or in the future, by virtue of this Agreement or any such other attorney-client relationship that Bond Counsel may have had, may have, or may enter into, and the City specifically consents to any and all such relationships; provided, however, that a separate conflict-waiver letter will be prepared with respect to Bond Counsel's concurrent representation of the City and any other entity in connection with the issuance, sale, and delivery of the TRANs.

7. Nothing in this Agreement or in any of the documents contemplated hereby, expressed or implied, is intended to give, or is to be construed to give, any person other than the City and Bond Counsel any legal or equitable right or claim under, or in respect of, this Agreement, and this Agreement inures to the sole and exclusive benefit of the City and Bond Counsel.

Bond Counsel may not assign its obligations under this Agreement without the express written consent of the City, except to a successor partnership or corporation to which all or substantially all of the assets and operations of Bond Counsel are transferred. The City may not assign its rights and obligations under this Agreement without the express written consent of Bond Counsel. All references to Bond Counsel and the City in this Agreement refer to their respective successors and assignees and will bind and inure to the benefit of their successors and assignees whether so expressed or not.

8. This Agreement may be executed in any number of counterparts, and each counterpart is deemed for all purposes to be an original, and all such counterparts together constitute the same Agreement.
9. To be effective, notices pertaining to this Agreement must be sent by U.S. Postal Service, first class, postage prepaid, as follows:

To The City

City of Sacramento
915 "I" Street
Historic City Hall, Third Floor, #09500
Sacramento, CA 95814-2704
Attention: City Treasurer

and

City Attorney's Office
P.O. Box 1948
Sacramento, CA 95812-1948
Attention: Joseph Cerullo

To Bond Counsel

Orrick, Herrington & Sutcliffe LLP
The Orrick Building
405 Howard Street
San Francisco, CA 94105
Attention: Richard I. Hiscocks

IN WITNESS WHEREOF, the City and Bond Counsel have executed this Agreement by their duly authorized representatives as of the date provided above.

CITY OF SACRAMENTO

By _____
Eileen M. Teichert, City Attorney

ORRICK, HERRINGTON & SUTCLIFFE LLP

By Richard I. Hiscocks
Richard I. Hiscocks

APPROVED AS TO FORM:

Joseph Cerullo
Senior Deputy City Attorney



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 2011 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 Resolution No. 2011-___ adopted by the City Council of the City on June 21, 2011 (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 have the following meanings.

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

“Dissemination Agent” means the person or entity acting as Dissemination Agent hereunder in accordance with Section 5.

“EMMA System” means the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Listed Event” means any of the events listed in Section 3(a) or Section 3(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board.

“Official Statement” means the official statement relating to the Notes, dated [July __, 2011].

“Participating Underwriter” means Stone & Youngberg LLC.

“Rule” means Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” means 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 in a timely manner not more than ten (10) business days after the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) 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. Unless described in paragraph 3(a)(5), adverse tax opinions or other notices or determinations by the Internal Revenue Service with respect to the tax status of the Notes or other events affecting the tax status of the Notes;
2. Modifications to rights of Note holders;
3. Optional, unscheduled or contingent calls;
4. Release, substitution, or sale of property securing repayment of the Notes;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 3(b), the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City determines that knowledge of the occurrence of a Listed Event under Section 3(b) would be material under applicable federal securities laws, then the City shall file a notice of such occurrence with the MSRB through the EMMA System in a timely manner not more than ten (10) business days after the event.

SECTION 4. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate will terminate upon the legal defeasance, prior redemption, or payment in full of all of the Notes. If termination occurs before final maturity of the Notes, then the City shall file a notice of termination with the MSRB through the EMMA System in a timely manner not more than ten (10) business days after the termination.

SECTION 5. Dissemination Agent. The City may, from time to time, appoint another person or entity to act as a Dissemination Agent and assist the City in carrying out its obligations under this Disclosure Certificate. Both the appointment and the acceptance of the appointment must be in writing. The City may discharge any appointed Dissemination Agent with or without appointing another Dissemination Agent. A Dissemination Agent appointed under this Section is not responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

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 Section 3(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature, or status of an obligated person with respect to the Notes or the type of business conducted;

(b) the Disclosure Certificate, as amended or taking into account a 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 the amendment or waiver in a filing made with the MSRB through the EMMA System in a timely manner not more than ten (10) business days after the event 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 prevents 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, then the City will have no obligation under this Certificate to update the information or include it in any future notice of occurrence of a Listed Event.

SECTION 8. Default. If the City fails to comply with any provision of this Disclosure Certificate, then any Holder or Beneficial Owner of the Notes may take any 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 is not an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate if the City fails to comply with this Disclosure Certificate is an action to compel performance.

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

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

Date: _____, 2011

CITY OF SACRAMENTO

By: _____
City Treasurer



RESOLUTION NO. 2011-_____

Adopted by the Sacramento City Council

APPROVING THE REVENUE-AND-EXPENDITURE BUDGET FOR THE 2011 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 2011-12, 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 2011-12.
- B. On June 21, 2011, 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 needed to carry out the terms and intent of the TRANS financing in accordance with the law and City policy, as needed after final pricing and sale of the TRANS.

Section 2. The City Treasurer’s Office and the Finance Department are hereby 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 City 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 City Treasurer’ Office 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 2011-2012 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 2011-12.