

Meeting Date: 7/15/2014

Report Type: Consent

Report ID: 2014-00441

Title: (City Council/Financing Authority) Remediation of Private Use Associated with a Parcel to be Transferred from the City of Sacramento to Sacramento Basketball Holdings, Inc. (1401 H Street)

Location: District 4

Recommendation: Pass 1) a City Council Resolution authorizing the execution and delivery of a supplemental tax certificate relating to the prepayment of a portion of the 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program), and approving certain other actions in connection therewith; and 2) a Sacramento City Financing Authority Resolution authorizing the execution and delivery of an escrow agreement and a supplemental tax certificate relating to the defeasance of the 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program), and approving certain other actions in connection therewith.

Contact: Janelle Gray, Treasury Manager, (916) 808-8296; Brian Wong, Senior Debt Analyst, (916) 808-5811, Office of the Treasurer

Presenter: None

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution (City)
- 4-Exhibit A - Supplemental Tax Certificate
- 5-Resolution (Authority)
- 6-Exhibit A - Escrow Agreement
- 7-Exhibit B - Supplemental Tax Certificate

City Attorney Review

Approved as to Form
Matthew Ruyak
7/8/2014 1:14:12 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 7/1/2014 11:35:02 AM

Description/Analysis

Issue Detail: Under the *Property Conveyance Agreement* between the City of Sacramento and Sacramento Basketball Holdings, Inc. (“**SBH**”), the City must transfer the parcel located at 14th Street & H Street (1401 H Street, APN 002-0166-013-0000) (the “**Parcel**”) to SBH as part of the City’s contribution toward the overall cost of financing the Entertainment and Sports Center (the “**ESC financing**”).

The Parcel was acquired using proceeds from the tax-exempt 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**2006A Bonds**”). Originally the City intended to transfer the Parcel to the Studios for Performing Arts (“**SPA**”), a non-profit, 501(c)3 organization, which planned to develop it as a performing-arts center. But SPA has since decided to locate the center elsewhere and thus no longer desires to acquire the Parcel. The City likewise has no plans to develop the Parcel and is currently not using it.

Generally, the proceeds from tax-exempt bonds must be expended on capital projects that serve a governmental or government-related purpose, although a small portion of the proceeds may be devoted to “private business use”—in most instances not more than 10%. If, however, the private use is unrelated to, or disproportionate to, the governmental uses financed by the bonds, then only 5% of the proceeds may be allocated to private uses.

SBH is a non-governmental entity, and its proposed use of the Parcel will be unrelated to any governmental purpose, so the 5% threshold will apply once SBH takes title. Because SBH’s use will cause the private use of proceeds from the 2006A Bonds to exceed 5%, the IRS regulations require that the City “remediate” the resulting private use by using non-tax-exempt proceeds to repay the portion of the 2006A Bonds allocated to the Parcel. Unless remediation occurs before the transfer to SBH, the bonds will lose their tax-exempt status. That would trigger numerous cascading events adversely affecting both the City and the bondholders.

Policy Considerations: Remediation of the private activity related to the Parcel will need to occur to ensure compliance with the IRS’ private-activity threshold. Failure to do so could negatively impact the tax-exempt status of other projects financed by the 2006A Bonds.

Economic Impacts: The private-activity remediation of the Parcel will not have economic impacts on the City.

Environmental Considerations: Not applicable.

Sustainability: Not applicable

Commission/Committee Action: Not applicable.

Rationale for Recommendation: The actions requested are necessary to implementing the *Property Conveyance Agreement*.

Financial Considerations: To fully remediate the private use, the City will need to establish an irrevocable escrow with the trustee of the 2006A Bonds (The Bank of New York Mellon Trust Company). The purpose of the escrow is to put aside adequate funds for the future payment of the outstanding principal of the 2006A Bonds that is associated with the Parcel plus the related interest

accruing between December 1, 2014, and December 1, 2016 (the date 2006A Bonds are optionally redeemable). This is sometimes called “economic defeasance.”

The deposit to the escrow is anticipated to be approximately \$2.9 million, derived from residual proceeds from the City’s sale of land to Chrysler Group Realty Company, LLC (“**Chrysler**”) (Resolution No. 2011-091) and Rapton Investment Group, LLC. (“**Rapton**”) (Resolution No. 2013-0405) totaling approximately \$6.6 million. The parcels sold to Rapton were improved by the 2006 Capital Improvement Revenue Bonds, Series B (“**2006B Bonds**”). At the time of the sale, the intent was to use the sale proceeds to offset debt service related to the 2006B Bonds. Use of the sale proceeds provides dual benefit in that it reduces the debt service and remediates the private use.

Residual proceeds from the sale of land to Chrysler and Rapton less the deposit to the escrow will continue to be available to offset general fund debt service obligations.

Local Business Enterprise (LBE): Not applicable.

Background

The parcel located at 14th Street & H Street (1401 H Street, APN 002-0166-013-0000) (the “**Parcel**”) will be transferred from the City’s ownership to Sacramento Basketball Holdings, Inc. (“**SBH**”) as part of the City’s contribution to financing the cost of the Entertainment and Sports Center (the “**ESC financing**”).

The Parcel was acquired using \$3 million in tax-exempt proceeds from the 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (“**2006A Bonds**”). Originally, the City intended to transfer the Parcel to the Studios for Performing Arts (“**SPA**”), a non-profit, 501(c)3 organization, which planned to develop it as a performing-arts center. But SPA has since decided to locate the center elsewhere and thus no longer desires to acquire the Parcel. The City likewise has no plans to develop the Parcel and is currently not using it.

Generally, the proceeds from tax-exempt bonds must be expended on capital projects that serve a governmental or government-related purpose, although a small portion of the proceeds may be devoted to “private business use”—in most instances not more than 10%. If, however, the private use is unrelated to, or disproportionate to, the governmental uses financed by the bonds, then only 5% of the proceeds may be allocated to private uses.

SBH is a non-governmental entity, and its proposed use of the Parcel will be unrelated to any governmental purpose, so the 5% threshold will apply once SBH takes title. Because SBH’s use will cause the private use of proceeds from the 2006A Bonds to exceed 5%, the IRS regulations require that the City “remediate” the resulting private use by using non-tax-exempt proceeds to repay the portion of the 2006A Bonds allocated to the Parcel. Unless remediation occurs before the transfer to SBH, the IRS may determine that the 2006A Bonds are taxable, which would trigger numerous cascading events that adversely affect both the City and the bondholders.

To remediate the private use of the Parcel, the City will establish an irrevocable escrow with The Bank of New York Mellon Trust Company and deposit in the escrow sufficient funds to optionally redeem the proportionate amount of tax-exempt 2006A Bonds associated with the Parcel plus related accrued interest. This is sometimes known as “economic defeasance.” The earliest redemption date is December 1, 2016.

Details of Deposit to the Irrevocable Escrow

Economic Defeasance – 14 th Street & H Street Principal Amount ¹	\$2,575,000.00
Economic Defeasance – 14 th & H Streets Proportionate Interest ²	\$ 321,875.00
TOTAL Estimated Deposit ³:	\$2,896,875.00

¹ Equal to the proportionate principal amount of tax-exempt 2006A Bonds prior to December 1, 2014, to be optionally redeemed (called) on December 1, 2016.

² Equal to the proportionate amount of interest associated with the Parcel between December 1, 2014, and December 1, 2016.

³ Equal to the “Gross Funding” amount of the irrevocable escrow. With assistance by the City’s financial advisor, FirstSouthwest Company, the City will look to purchase suitable investments – either State and Local Government Series securities or open-market securities. The purchase of those investments and the resulting investment earnings will reduce the amount required to be deposited into the escrow before the transfer of the Parcel to SBH.

Costs related to partially prepaying the 2006A Bonds (including, but not limited to: bond/tax counsel services, trustee services, and verification agent services) will be paid from funds already on deposit in the debt service fund of the 2006 Capital Improvement Revenue Bonds (currently Fund 4016) for the actions related to staff’s recommendation.

RESOLUTION NO.

Adopted by the Sacramento City Council

AUTHORIZING THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL TAX CERTIFICATE RELATING TO THE PREPAYMENT OF A PORTION OF THE 2006 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES A (COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROGRAM), AND APPROVING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

BACKGROUND

- A.** The City and the Sacramento City Financing Authority (the “**Authority**”) have previously entered into a Master Site Lease and a Master Project Lease, both dated as of December 1, 1999 (together, the “**Leases**”). Under the Master Site Lease, the City leased certain real property to the Authority, and under the Master Project Lease, the Authority leased the property back to the City (together with improvements thereon). The City and the Authority subsequently amended the Leases to provide bond financing for the 1999 Project, the 2000 Project, the 2001 Project, the 2002A Project, the 2003 Project, and the 2006 Project as defined in the Master Project Lease.
- B.** In connection with the 2006 Project, the Authority issued its 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**2006A Bonds**”).
- C.** The City is contemplating transferring certain property financed with the 2006A Bonds to a private entity. In order to remediate the private use resulting from this transfer of ownership with respect to the 2006A Bonds, the City and the Authority are taking remedial action pursuant to the federal tax laws to prepay the portion of the 2006A Bonds allocable to the transferred property.
- D.** Such remedial actions require the establishment of an escrow fund to prepay the portion of the 2006A Bonds allocable to the transferred property and the execution of a supplemental tax certificate related to the 2006A Bonds.
- E.** Costs related to partially prepaying the 2006A Bonds (including, but not limited to: bond/tax counsel services, trustee services, and verification agent services) will be paid from funds on deposit in the debt service fund of the 2006 Capital Improvement Revenue Bonds, Series B (currently Fund 4016).

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

Section 1. The statements in paragraphs A through E of the Background are true.

Section 2. The City Council hereby approves the form of the Supplemental Tax Certificate. The City Treasurer or his designee is hereby authorized and directed to execute the Supplemental Tax Certificate on the City's behalf, and the City Clerk is hereby authorized and directed to attest the execution and to affix the seal of the City thereto and to deliver the Supplemental Tax Certificate to the Authority. As executed and delivered, the Supplemental Tax Certificate must be in the form attached to this resolution as Exhibit A, with the additions thereto or changes therein as the City Treasurer may require or approve, and with approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The officers of the City are hereby each authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents, including but not limited to a certificate and any documents as may be required or which they may consider necessary or advisable to carry out, give effect to, and comply with this resolution and the Supplemental Tax Certificate. Any actions previously taken by the officers in accordance with the intent of this resolution are hereby ratified, confirmed, and approved.

Section 4. City staff is authorized to appropriate up to \$20,000 from Fund 4016 to cover fees related to prepaying the 2006A Bonds (including, but not limited to: fees for bond/tax counsel services, trustee services, and verification agent services). Any unspent portion of the \$20,000 must be reimbursed to Rapton Investment Group, LLC ("**Rapton**"), in accordance with the terms and conditions of the City's land sale agreement with Rapton.

Attached: Exhibit A – Supplemental Tax Certificate

SUPPLEMENTAL TAX CERTIFICATE

\$95,900,000

**Sacramento City Financing Authority
2006 Capital Improvement Revenue Bonds
Series A (Community Reinvestment Capital Improvement Program)**

This Supplemental Tax Certificate (the “**Supplemental Tax Certificate**”) is being executed and delivered by the Sacramento City Financing Authority (the “**Issuer**”) and the City of Sacramento (the “**City**”) in connection with remedial action with respect to the Issuer’s \$95,900,000 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**Bonds**”).

In connection with the issuance of the Bonds, the Issuer, the City, and the Redevelopment Agency of the City of Sacramento (the “**Redevelopment Agency**”) executed a tax certificate (the “**Original Tax Certificate**”). Defined terms not otherwise defined herein have the meanings set forth in the Original Tax Certificate.

A portion of the Proceeds of the Bonds was used to finance property identified in the Original Tax Certificate as the Arts Rehearsal Space, which is located at the intersection of 14th Street and H Street in Sacramento, California. The Arts Rehearsal Space is being transferred to a private entity. In order to remediate the private use resulting from this transfer of ownership with respect to the Bonds, the Issuer and the City are taking remedial action pursuant to Treasury Regulation Section 1.141-12 and defeasing the portion of the Bonds allocable to the Arts Rehearsal Space, as described further in this Supplemental Tax Certificate.

ARTICLE I—BACKGROUND AND ALLOCATIONS

1.1 The Issuer. The Issuer is a separate public entity and joint-powers authority of the State of California created under the Joint Exercise of Powers Act (commencing with Section 6500 of the California Government Code) and a joint-exercise-of-powers agreement between the City and the Redevelopment Agency. On February 1, 2012, the Redevelopment Agency was terminated as required by state law, and the termination required a successor agency to be appointed. The City has elected to serve as successor agency to the Redevelopment Agency. The City has the general authority to exercise the power of eminent domain in furtherance of its governmental purposes. The governing board of the Issuer is the same as the governing board of the City, i.e., the Sacramento City Council.

1.2 Uses of Proceeds of the Bonds. As described in the Original Tax Certificate, the Issuer allocated a portion of the Bonds to the 501(c)(3) Subissue, which was used to finance projects used by organizations described in Section 501(c)(3) of the Code, and allocated the remaining portion of the Bonds to the Governmental Projects Subissue, which was used to finance projects that were not used in the trade or business of any Nongovernmental Person.

1.3 501(c)(3) Subissue. Based on the Forms 8038 and 8038-G filed with respect to the Bonds, \$30,913,835 of aggregate principal amount of the Bonds were allocated to the 501(c)(3) Subissue, which was 32.23549% of the Bonds. The Sale Proceeds of this \$30,913,835 of aggregate

principal amount of Bonds was \$31,649,179. \$28,950,000 of Sale Proceeds of the 501(c)(3) Subissue, together with investment earnings thereon, were used to finance the 501(c)(3) Projects, and the remainder of the Sale Proceeds of the 501(c)(3) Subissue were used to finance the allocable portions of costs of issuance of the Bonds, a deposit to the Reserve Fund for the Bonds, and the Bond Insurance Premium with respect to the Bonds.

1.4 Proceeds Used to Finance Arts Rehearsal Space. No more than \$3,000,000 of Sale Proceeds of the 501(c)(3) Subissue were used to finance the Arts Rehearsal Space. The portion of the 501(c)(3) Subissue allocable to the Arts Rehearsal Space is no more than 10.36296%¹ of the 501(c)(3) Subissue.

1.5 Outstanding Par Amount Allocable to Arts Rehearsal Space. As of the date hereof, \$76,535,000 of principal amount of the Bonds remain outstanding. Based on the 32.23549% of the Bonds allocable to the 501(c)(3) Subissue, \$24,671,429.15 of the outstanding principal amount of the Bonds are part of the 501(c)(3) Subissue. Based on the 10.36296% of the 501(c)(3) Subissue allocable to the Arts Rehearsal Space, \$2,556,624.78 of the outstanding principal amount of Bonds is allocable to the Arts Rehearsal Space.

ARTICLE II—DEFEASANCE

2.1 Conditions to Taking Remedial Action. As described in the Original Tax Certificate, the Issuer, the City, and the Agency reasonably expected that the 501(c)(3) Projects would be used by the City or for the exempt purpose of a 501(c)(3) organization and that there would not be any use of the 501(c)(3) Projects that would cause the Bonds to meet the private-business tests or the private-loan tests during the term of the Bonds. The weighted-average maturity of the 501(c)(3) Subissue was the same as the weighted-average maturity of the Bonds, and did not exceed 120% of the reasonably expected economic useful life of the 501(c)(3) Projects. The Arts Rehearsal Space is being transferred to a private entity in connection with the construction and financing of the City’s Entertainment and Sports Center to be located in downtown Sacramento, and the value being received by the City for the Arts Rehearsal Space represents a bona fide arm’s-length transaction in which the City is receiving a fair market value for the Arts Rehearsal Space.

2.2 Defeasance Escrow. Pursuant to Treasury Regulations § 1.141-12, the City has established an irrevocable defeasance escrow (the “**Defeasance Escrow**”) to defease \$2,575,000 of the Bonds (the “**Defeased Bonds**”) pursuant to an Escrow Agreement, dated as of July 1, 2014, between the Issuer and the Trustee in its role as escrow agent. Causey Demgen & Moore, Inc. has provided a report (the “**Verification Report**”) verifying the accuracy of certain computations relating to the Defeasance Escrow and the Defeased Bonds. The Defeased Bonds consist of the following maturities of the Bonds:

Defeased Bond	Maturity or Sinking Fund Payment Date	Par Amount
2036 Term Bond	December 1, 2032	\$465,000
2036 Term Bond	December 1, 2033	\$490,000
2036 Term Bond	December 1, 2034	\$515,000

¹ Conservatively based on the \$3,000,000 that financed the Arts Rehearsal Center, divided by the \$28,950,000 of Sale Proceeds of the 501(c)(3) Subissue used to finance the 501(c)(3) Projects.

2036 Term Bond	December 1, 2035	\$540,000
2036 Term Bond	December 1, 2036	\$565,000

The Defeased Bonds are being defeased to December 1, 2016, the first call date of the Bonds, which is within ten and a half years from date of issuance of the Bonds.

The City will transfer \$[_____] of funds that are not proceeds of any tax-exempt obligation into the Defeasance Escrow. The Defeasance Escrow will be invested in the securities identified in the Verification Report, attached as Exhibit A hereto (the “**Escrow Securities**”). The Escrow Securities are being acquired pursuant to a bidding process that occurred on July __, 2014, as detailed in Exhibit B. The Defeasance Escrow will be invested, on a composite basis, at a yield not exceeding [_____]%, which does not exceed the yield on the Bonds, 4.488289%, as shown in the Original Tax Certificate. The Escrow Securities consist of bonds issued by the United States Treasury or in other investments that do not cause the Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code or Treasury Regulation § 1.149(b)-1.

The Defeasance Escrow is being established within 90 days of the date that the Arts Rehearsal Space is being transferred to the private entity. Pursuant to Treasury Regulation § 1.141-2(d)(3), the City will provide a notice of establishment of the defeasance escrow to the Commissioner of the Internal Revenue Service within 90 days, in substantially the form attached as Exhibit C.

2.3 Weighted-Average Maturity. The weighted-average maturity of the Bonds remaining outstanding immediately after defeasance of the Defeased Bonds will not be greater than the weighted-average maturity of the outstanding Bonds immediately before defeasance of the Defeased Bonds.

2.4 Ongoing Compliance. Except as described in this Supplemental Tax Certificate, the Issuer and the City have complied with the terms of the Original Tax Certificate with respect to the Bonds. The Bonds are not currently under examination by the IRS, and the tax-exempt status of the Bonds is not at issue in any court proceeding and is not being considered by the IRS Office of Appeals.

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Dated: July __, 2014

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Treasurer

CITY OF SACRAMENTO

By _____
City Treasurer

EXHIBIT A
VERIFICATION REPORT

EXHIBIT B

ESCROW SECURITIES

EXHIBIT C

FORM OF LETTER TO IRS

July __, 2014

**BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Internal Revenue Service
1111 Constitution Avenue, N.W.
Attention T:GE:TEB:O
Washington, D.C. 20224

Re: Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A
(Community Reinvestment Capital Improvement Program)

Dear Sir or Madam:

In accordance with Treasury Regulation Section 1.141-12(d)(3), the City of Sacramento (the "City") and the Sacramento City Financing Authority (the "Authority") hereby provides notice of the defeasance of \$2,575,000 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) in accordance with a remedial action taken attributable to a change in use by the City and Issuer.

If you require any additional information, please contact the undersigned.

Very truly yours,

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Treasurer

CITY OF SACRAMENTO

By _____
City Treasurer

RESOLUTION NO.

Adopted by the Sacramento City Financing Authority

AUTHORIZING THE EXECUTION AND DELIVERY OF AN ESCROW AGREEMENT AND A SUPPLEMENTAL TAX CERTIFICATE RELATING TO THE PREPAYMENT OF A PORTION OF THE 2006 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES A (COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROGRAM), AND APPROVING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

BACKGROUND

- A.** The Sacramento City Financing Authority is a joint-powers agency duly organized and existing under California law (the “**Authority**”).
- B.** The Authority and the City of Sacramento (the “**City**”) have previously entered into a Master Site Lease and a Master Project Lease, both dated as of December 1, 1999 (together, the “**Leases**”). Under the Master Site Lease, the City leased certain real property to the Authority, and under the Master Project Lease, the Authority leased the property back to the City (together with improvements thereon). The City and the Authority subsequently amended the Leases to provide bond financing for the 1999 Project, the 2000 Project, the 2001 Project, the 2002A Project, the 2003 Project, and the 2006 Project as defined in the Master Project Lease.
- C.** In connection with the 2006 Project, the Authority issued its 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**2006A Bonds**”).
- D.** The City is contemplating transferring certain property financed with the 2006A Bonds to a private entity. In order to remediate the private use resulting from this transfer of ownership with respect to the 2006A Bonds, the City and the Authority are taking remedial action pursuant to the federal tax laws to prepay the portion of the 2006A Bonds allocable to such transferred property.
- E.** Such remedial actions require the establishment of an escrow fund to prepay the portion of the 2006A Bonds allocable to the transferred property and the execution of a supplemental tax certificate related to the 2006A Bonds.

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

Section 1. The statements in paragraphs A through E of the Background are true.

Section 2. The Authority hereby approves the Escrow Agreement and the Supplemental Tax Certificate. The Treasurer of the Authority or his designee is hereby authorized and directed to execute the Escrow Agreement and the Supplemental Tax Certificate on the Authority's behalf, and the Secretary of the Authority is hereby authorized and directed to attest the execution and deliver the Escrow Agreement and the Supplemental Tax Certificate to the City. As executed and delivered, the Escrow Agreement and the Supplemental Tax Certificate must be in the forms attached to this resolution as Exhibits A and B, with the additions thereto or changes therein as the Treasurer may require or approve, with approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The officers of the Authority are hereby each authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents, including but not limited to a certificate and any documents as may be required or which they may consider necessary or advisable to carry out, give effect to, and comply with this resolution, the Escrow Agreement, and the Supplemental Tax Certificate. Any actions previously taken by the officers in accordance with the intent of this resolution are hereby ratified, confirmed, and approved.

Attached: Exhibit A – Escrow Agreement
Exhibit B – Supplemental Tax Certificate

ESCROW AGREEMENT

between the

SACRAMENTO CITY FINANCING AUTHORITY

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,

as Escrow Agent

Dated as of July 1, 2014

RELATING TO THE

SACRAMENTO CITY FINANCING AUTHORITY

2006 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES A
(COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROGRAM)

TABLE OF CONTENTS

	Page
Section 1. Establishment and Maintenance of the Escrow Fund.....	1
Section 2. Transfers Related to and Payments from the Escrow Fund.....	2
Section 3. Substitution of Securities in the Escrow Fund.....	2
Section 4. Deficiencies in the Escrow Fund	2
Section 5. Notice of Redemption.....	3
Section 6. Compensation and Indemnification of the Escrow Agent	3
Section 7. Functions of the Escrow Agent.....	3
Section 8. Merger or Consolidation of the Escrow Agent.....	5
Section 9. Amendment of the Escrow Agreement.....	5
Section 10. Notices	5
Section 11. Severability	5
Section 12. California Law	5
Section 13. Execution	5
EXHIBIT A Schedule of Prepaid 2006A Bonds	
SCHEDULE I 2006A Bonds Escrow Securities	

ESCROW AGREEMENT

This Escrow Agreement (the “**Escrow Agreement**”), dated as of July 1, 2014, is between the Sacramento City Financing Authority, a joint-exercise-of-powers authority duly organized and existing under the laws of the State of California (the “**Authority**”), and The Bank of New York Mellon Trust Company, N.A., a national banking association (formerly known as The Bank of New York Trust Company, N.A.), duly organized and existing under and by virtue of the laws of the United States of America, as trustee under the Indenture, dated as of June 1, 2006 (the “**Indenture**”), between the Authority and such trustee relating to the Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program), and having a corporate trust office in San Francisco, California, and being qualified to accept and administer the trust hereby created (the “**Escrow Agent**”).

WITNESSETH:

WHEREAS, the Authority duly issued \$95,900,000 aggregate principal amount of its Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**2006A Bonds**”) under the terms of the Indenture, the unmatured principal amount of which 2006A Bonds (being \$76,535,000) is currently outstanding; and

WHEREAS, the Authority has determined to prepay a portion of the outstanding principal amount of the 2006A Bonds (the “**Prepaid 2006A Bonds**”) in accordance with the terms of the Indenture, all as more fully described in Exhibit A, “Schedule of Prepaid 2006A Bonds,” attached hereto and made a part hereof, from certain available funds that are not the proceeds of tax-exempt bonds; and

WHEREAS, in order to implement the foregoing, the Authority has taken action to cause to be delivered to the Escrow Agent on _____, 2014 for deposit in the Escrow Fund (referred to in Section 1 hereof) the sum of \$_____, which sum will be used by the Escrow Agent to purchase those certain United States Treasury obligations (the “**2006A Bonds Escrow Securities**”) listed in Schedule I attached hereto and made a part hereof, the interest on and principal of which 2006A Bonds Escrow Securities, together with the unexpended money from such initial cash deposit of \$____ into the Escrow Fund, will be sufficient to provide for (1) the payments on and prior to December 1, 2016, of the interest on the Prepaid 2006A Bonds as such interest becomes due and payable on such dates, and (2) the redemption on December 1, 2016, of all outstanding Prepaid 2006A Bonds becoming due and payable on and after December 1, 2016, at a redemption price of 100% of the principal amount thereof.

NOW, THEREFORE, the Authority and the Escrow Agent hereby agree as follows:

Section 1. Establishment and Maintenance of the Escrow Fund. The Escrow Agent shall establish and maintain an escrow fund (the “**Escrow Fund**”), which must be maintained until all Prepaid 2006A Bonds have been paid and redeemed as provided in Section 2 hereof, and shall hold the Escrow Securities and the money (whether constituting the initial deposit in the Escrow Fund or constituting receipts on the 2006A Bonds Escrow Securities) in the Escrow

Fund at all times as a separate trust account wholly segregated from all other securities, investments, or money held by it. All 2006A Bonds Escrow Securities and all money in the Escrow Fund are hereby irrevocably pledged to secure the payment and redemption of the Prepaid 2006A Bonds as provided in Section 2 hereof; provided, that the Escrow Agent shall repay to the Authority, free from the trust created by the Escrow Agreement, any money held in the Escrow Fund that is not used for the payment and redemption of the Prepaid 2006A Bonds as provided in Section 2 hereof.

Section 2. Transfers Related to and Payments from the Escrow Fund. The Escrow Agent is hereby irrevocably instructed to, and the Escrow Agent shall, do the following: collect and deposit in the Escrow Fund the interest on all 2006A Bonds Escrow Securities held in the Escrow Fund promptly as such interest becomes due, and to use such interest, together with any other money deposited in the Escrow Fund, to provide for (a) the payments on and prior to December 1, 2016, of the interest on the Prepaid 2006A Bonds as such interest becomes due and payable on such dates; and (b) the redemption on December 1, 2016, of all outstanding Prepaid 2006A Bonds becoming due and payable on and after December 1, 2016, at a redemption price of 100% of the principal amount thereof.

Section 3. Substitution of Securities in the Escrow Fund. Upon a written request of the Authority, and after receiving from the Authority (a) a written report of a nationally recognized firm of independent certified public accountants to the effect that the substitute securities will mature in such principal amounts and earn interest in such amounts and at such times so that sufficient money will be available to provide for the payment and redemption of the Prepaid 2006A Bonds from the Escrow Fund as provided in Section 2 hereof; and (b) an unqualified opinion of a nationally recognized bond counsel that such amendment will not, in and of itself, result in the inclusion in gross income for federal income-tax purposes of interest on the Prepaid 2006A Bonds, the Escrow Agent shall sell, redeem, or otherwise dispose of any securities in the Escrow Fund if, but only if, there are substituted therefor, from the proceeds of such securities, other non-callable direct obligations of the United States of America or obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America. The Escrow Agent shall remit to the Authority, free from the trust created by the Escrow Agreement, any proceeds of the sale, redemption, or other disposition of such securities in the Escrow Fund not needed for the foregoing substitution purpose. The Escrow Agent will not be liable or responsible for any loss resulting from any investment made pursuant to this section and in full compliance with the provisions hereof.

Section 4. Deficiencies in the Escrow Fund. If at any time it appears to the Escrow Agent that the money in the Escrow Fund will not be sufficient to make all payments required by Section 2, then the Escrow Agent shall notify the Authority in writing as soon as reasonably practicable of such fact, stating the amount of such deficiency and the reason therefor, and the Authority shall use its best efforts to obtain and deposit with the Escrow Agent for deposit in the Escrow Fund, from any legally available moneys, such additional money as may be required to provide for the payment and redemption of the Prepaid 2006A Bonds in accordance with the conditions and terms of the Indenture and hereof; provided, that the Escrow Agent will in no event or manner be responsible for the failure of the Authority to make any such deposit.

Section 5. Notice of Redemption. The Escrow Agent shall give timely notice of the redemption of the Prepaid 2006A Bonds in accordance with the Indenture and the continuing disclosure agreement related to the 2006A Bonds.

Section 6. Compensation and Indemnification of the Escrow Agent.

(a) The Authority shall pay the Escrow Agent a fee for its services hereunder and shall reimburse the Escrow Agent for the out-of-pocket expenses (including but not limited to the fees and expenses, if any, of its counsel or accountants) the Escrow Agent incurs in connection with these services, all as more particularly agreed upon by the Authority and the Escrow Agent; provided, that these fees and expenses will in no event be deducted from the Escrow Fund, and the Escrow Agent has no lien or right of set-off against the Escrow Fund for payment of its fees.

(b) To the extent permitted by law, the Authority shall indemnify the Escrow Agent, its agents, and its officers or employees for, and hold the Escrow Agent, its agents, and its officers or employees harmless from, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses, and disbursements of any kind (including but not limited to reasonable fees and disbursements of counsel or accountants for the Escrow Agent) that may be imposed on, incurred by, or asserted against the Escrow Agent or such other party at any time by reason of its performance of Escrow Agent's services, in any transaction arising out of the Escrow Agreement or any of the transactions contemplated herein, unless due to the negligence or willful misconduct of the particular indemnified party. The provisions of this section will survive the removal or resignation of the Escrow Agent and the defeasance of the 2006A Bonds.

Section 7. Functions of the Escrow Agent.

(a) The Escrow Agent undertakes to perform only such duties as are expressly and specifically set forth in the Escrow Agreement, and no implied duties or obligations may be read into the Escrow Agreement against the Escrow Agent.

(b) The Escrow Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, and will be protected and indemnified as stated in the Escrow Agreement, in acting, or refraining from acting, upon any written notice, instruction, request, certificate, document, report, or opinion furnished to the Escrow Agent and reasonably believed by the Escrow Agent to have been signed or presented by the proper party, and the Escrow Agent need not investigate any fact or matter stated in such notice, instruction, request, certificate, document, report, or opinion.

(c) The Escrow Agent is not liable hereunder except to the extent of its own negligence or willful misconduct. In no event will the Escrow Agent be liable for any special, indirect, or consequential damages, even if parties know of the possibility of such damages. The Escrow Agent has no duty or responsibility under the Escrow Agreement in the case of any default in the performance of covenants or agreements contained in the Indenture or in the case of the receipt of any written demand with respect to such default. The Escrow Agent is not

required to resolve conflicting demands to money or property in its possession under the Escrow Agreement.

(d) The Escrow Agent may consult with counsel of its own choice (which may be counsel to the Authority), and the opinion of such counsel will be full and complete authorization to take or suffer in good faith any action in accordance with such opinion of counsel.

(e) The Escrow Agent is not responsible for any of the recitals or representations contained herein or in the Indenture.

(f) The Escrow Agent may become the owner of, or acquire any interest in, any of the Prepaid 2006A Bonds with the same rights that it would have if it were not the Escrow Agent, and may engage or be interested in any financial or other transaction with the Authority.

(g) The Escrow Agent is not liable for the accuracy of the calculations as to the sufficiency of the 2006A Escrow Securities and moneys to make the payments of the interest on and principal of and redemption premiums, if any, on the Prepaid 2006A Bonds.

(h) The Escrow Agent is not liable for any action or omission of the Authority under the Escrow Agreement or the Indenture.

(i) Whenever in the administration of the trust of the Escrow Agreement the Escrow Agent deems it necessary or desirable that a matter be proved or established before taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be deemed to be conclusively proved and established by a Certificate of the Authority (as that term is defined in the Indenture), and such certification will, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be full warrant to the Escrow Agent for any action taken or suffered by it under the provisions of the Escrow Agreement upon the faith thereof.

(j) The Escrow Agent may resign at any time by giving written notice to the Authority of such resignation, whereupon the Authority shall promptly appoint a successor Escrow Agent by the resignation date. Resignation of the Escrow Agent will be effective 60 days after notice of the resignation is given as stated above or upon appointment of a successor Escrow Agent, whichever first occurs. If the Authority does not appoint a successor Escrow Agent by the resignation effective date, then the resigning Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor Escrow Agent (or may deposit with the court the Escrow Securities and money or other property held by it in trust under the Escrow Agreement), which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Escrow Agent. After receiving a notice of resignation of an Escrow Agent, the Authority may appoint a temporary Escrow Agent to replace the resigning Escrow Agent until the Authority appoints a successor Escrow Agent. Any such temporary Escrow Agent so appointed by the Authority will immediately and without further act be superseded by the successor Escrow Agent so appointed.

(k) The Escrow Agent shall provide the Authority with annual statements of the account maintained hereunder.

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

(m) The Escrow Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians, or nominees appointed with due care, and will not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian, or nominee so appointed.

(n) The Escrow Agent shall accept and act upon instructions or directions pursuant to this Escrow Agreement that the Authority sends by unsecured e-mail, facsimile transmission, or other similar unsecured electronic methods, provided, however, that the Authority has given the Escrow Agent an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate the Authority shall amend and replace whenever a person is to be added or deleted from the listing. If the Authority elects to give the Escrow Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Agent in its discretion elects to act upon such instructions, then the Escrow Agent's understanding of such instructions will be deemed controlling. The Escrow Agent will not be liable for any losses, costs, or expenses arising directly or indirectly from the Escrow Agent's reliance upon and compliance with such instructions even if such instructions conflict or are inconsistent with a subsequent written instruction. The Authority shall assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Agent, including but not limited to the risk of the Escrow Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(o) The Escrow Agent will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, facsimile transmission, electronic mail, bond, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(p) The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Agent shall furnish the Authority with periodic cash transaction statements that include detail for all investment transactions made by the Escrow Agent hereunder.

(q) If the Escrow Agent learns that the Department of the Treasury or the Bureau of Public Debt will not, for any reason, accept a subscription of Securities that is to be submitted pursuant to this Escrow Agreement, then the Escrow Agent shall promptly request alternative written investment instructions from the Authority with respect to escrowed funds that were to be invested in securities. The Escrow Agent shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Agent shall hold funds uninvested

and without liability for interest until receipt of further written instructions from the Authority. In the absence of investment instructions from the Authority, the Escrow Agent will not be responsible for the investment of such funds or interest thereon. The Escrow Agent may conclusively rely upon the Authority's selection of an alternative investment as a determination of the alternative investment's legality and suitability and will not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.

Section 8. Merger or Consolidation of the Escrow Agent. Any company into which the Escrow Agent is merged or converted or with which it may be consolidated; any company resulting from any merger, conversion, or consolidation to which the Escrow Agent is a party; or any company to which the Escrow Agent sells or transfers all or substantially all of its corporate trust business will be the successor to the Escrow Agent and vested with all of the title to the Escrow Funds and all of the trusts, powers, discretions, immunities, privileges, and all other matters as was its predecessor, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 9. Amendment of the Escrow Agreement. The parties may not amend this Escrow Agreement unless the Authority and the Escrow Agent have received (a) an unqualified opinion of a nationally recognized bond counsel that such amendment will not, in and of itself, result in the inclusion in gross income for federal income-tax purposes of interest on the Prepaid 2006A Bonds; and (b) if such amendment is materially adverse to the interests of the registered owners of the Prepaid 2006A Bonds, the written consent of the registered owners of all the Prepaid 2006A Bonds.

Section 10. Notices. All notices and communications hereunder must be in writing and will be deemed to be duly given if received or sent by first class mail, as follows:

If to the Escrow Agent:	If to the Authority:
The Bank of New York Mellon Trust Company, N.A. 400 South Hope Street, Suite #400 Los Angeles, California 90071 Attention: Corporate Trust Department	Office of the City Treasurer Historic City Hall 915 I Street, Third Floor Sacramento, California 95814 Attention: Treasury Manager

Section 11. Severability. If any section, paragraph, sentence, clause, or provision of the Escrow Agreement is for any reason held to be invalid or unenforceable, then the invalidity or unenforceability of such section, paragraph, sentence, clause, or provision will not affect any of the remaining provisions of the Escrow Agreement.

Section 12. California Law. The Escrow Agreement is to be governed by and construed and interpreted in accordance with the laws of the State of California.

Section 13. Execution. The Escrow Agreement may be executed in any number of counterparts, each of which will for all purposes be deemed to be an original and all of which will together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority and the Escrow Agent have each caused the Escrow Agreement to be executed in its name by its duly authorized officer all as of the day and year first above written.

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Treasurer

THE BANK OF NEW YORK MELLON TRUST
COMPANY , N.A., as Escrow Agent

By: _____
Authorized Officer

EXHIBIT A

SCHEDULE OF PREPAID 2006A BONDS

<u>Maturity or Sinking Fund Payment Date (Dec. 1)</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Prepaid</u>	<u>Date of Redemption</u>	<u>Redemption Price</u>
2032	5.00%	\$4,165,000	\$465,000	12/1/16	100.00
2033	5.00%	\$4,380,000	\$490,000	12/1/16	100.00
2034	5.00%	\$4,595,000	\$515,000	12/1/16	100.00
2035	5.00%	\$4,820,000	\$540,000	12/1/16	100.00
2036	5.00%	\$5,070,000	\$565,000	12/1/16	100.00

SCHEDULE I

2006A BONDS ESCROW SECURITIES

SUPPLEMENTAL TAX CERTIFICATE

\$95,900,000

**Sacramento City Financing Authority
2006 Capital Improvement Revenue Bonds
Series A (Community Reinvestment Capital Improvement Program)**

This Supplemental Tax Certificate (the “**Supplemental Tax Certificate**”) is being executed and delivered by the Sacramento City Financing Authority (the “**Issuer**”) and the City of Sacramento (the “**City**”) in connection with remedial action with respect to the Issuer’s \$95,900,000 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the “**Bonds**”).

In connection with the issuance of the Bonds, the Issuer, the City, and the Redevelopment Agency of the City of Sacramento (the “**Redevelopment Agency**”) executed a tax certificate (the “**Original Tax Certificate**”). Defined terms not otherwise defined herein have the meanings set forth in the Original Tax Certificate.

A portion of the Proceeds of the Bonds was used to finance property identified in the Original Tax Certificate as the Arts Rehearsal Space, which is located at the intersection of 14th Street and H Street in Sacramento, California. The Arts Rehearsal Space is being transferred to a private entity. In order to remediate the private use resulting from this transfer of ownership with respect to the Bonds, the Issuer and the City are taking remedial action pursuant to Treasury Regulation Section 1.141-12 and defeasing the portion of the Bonds allocable to the Arts Rehearsal Space, as described further in this Supplemental Tax Certificate.

ARTICLE I—BACKGROUND AND ALLOCATIONS

1.1 The Issuer. The Issuer is a separate public entity and joint-powers authority of the State of California created under the Joint Exercise of Powers Act (commencing with Section 6500 of the California Government Code) and a joint-exercise-of-powers agreement between the City and the Redevelopment Agency. On February 1, 2012, the Redevelopment Agency was terminated as required by state law, and the termination required a successor agency to be appointed. The City has elected to serve as successor agency to the Redevelopment Agency. The City has the general authority to exercise the power of eminent domain in furtherance of its governmental purposes. The governing board of the Issuer is the same as the governing board of the City, i.e., the Sacramento City Council.

1.2 Uses of Proceeds of the Bonds. As described in the Original Tax Certificate, the Issuer allocated a portion of the Bonds to the 501(c)(3) Subissue, which was used to finance projects used by organizations described in Section 501(c)(3) of the Code, and allocated the remaining portion of the Bonds to the Governmental Projects Subissue, which was used to finance projects that were not used in the trade or business of any Nongovernmental Person.

1.3 501(c)(3) Subissue. Based on the Forms 8038 and 8038-G filed with respect to the Bonds, \$30,913,835 of aggregate principal amount of the Bonds were allocated to the 501(c)(3) Subissue, which was 32.23549% of the Bonds. The Sale Proceeds of this \$30,913,835 of aggregate

principal amount of Bonds was \$31,649,179. \$28,950,000 of Sale Proceeds of the 501(c)(3) Subissue, together with investment earnings thereon, were used to finance the 501(c)(3) Projects, and the remainder of the Sale Proceeds of the 501(c)(3) Subissue were used to finance the allocable portions of costs of issuance of the Bonds, a deposit to the Reserve Fund for the Bonds, and the Bond Insurance Premium with respect to the Bonds.

1.4 Proceeds Used to Finance Arts Rehearsal Space. No more than \$3,000,000 of Sale Proceeds of the 501(c)(3) Subissue were used to finance the Arts Rehearsal Space. The portion of the 501(c)(3) Subissue allocable to the Arts Rehearsal Space is no more than 10.36296%¹ of the 501(c)(3) Subissue.

1.5 Outstanding Par Amount Allocable to Arts Rehearsal Space. As of the date hereof, \$76,535,000 of principal amount of the Bonds remain outstanding. Based on the 32.23549% of the Bonds allocable to the 501(c)(3) Subissue, \$24,671,429.15 of the outstanding principal amount of the Bonds are part of the 501(c)(3) Subissue. Based on the 10.36296% of the 501(c)(3) Subissue allocable to the Arts Rehearsal Space, \$2,556,624.78 of the outstanding principal amount of Bonds is allocable to the Arts Rehearsal Space.

ARTICLE II—DEFEASANCE

2.1 Conditions to Taking Remedial Action. As described in the Original Tax Certificate, the Issuer, the City, and the Agency reasonably expected that the 501(c)(3) Projects would be used by the City or for the exempt purpose of a 501(c)(3) organization and that there would not be any use of the 501(c)(3) Projects that would cause the Bonds to meet the private-business tests or the private-loan tests during the term of the Bonds. The weighted-average maturity of the 501(c)(3) Subissue was the same as the weighted-average maturity of the Bonds, and did not exceed 120% of the reasonably expected economic useful life of the 501(c)(3) Projects. The Arts Rehearsal Space is being transferred to a private entity in connection with the construction and financing of the City’s Entertainment and Sports Center to be located in downtown Sacramento, and the value being received by the City for the Arts Rehearsal Space represents a bona fide arm’s-length transaction in which the City is receiving a fair market value for the Arts Rehearsal Space.

2.2 Defeasance Escrow. Pursuant to Treasury Regulations § 1.141-12, the City has established an irrevocable defeasance escrow (the “**Defeasance Escrow**”) to defease \$2,575,000 of the Bonds (the “**Defeased Bonds**”) pursuant to an Escrow Agreement, dated as of July 1, 2014, between the Issuer and the Trustee in its role as escrow agent. Causey Demgen & Moore, Inc. has provided a report (the “**Verification Report**”) verifying the accuracy of certain computations relating to the Defeasance Escrow and the Defeased Bonds. The Defeased Bonds consist of the following maturities of the Bonds:

Defeased Bond	Maturity or Sinking Fund Payment Date	Par Amount
2036 Term Bond	December 1, 2032	\$465,000
2036 Term Bond	December 1, 2033	\$490,000
2036 Term Bond	December 1, 2034	\$515,000

¹ Conservatively based on the \$3,000,000 that financed the Arts Rehearsal Center, divided by the \$28,950,000 of Sale Proceeds of the 501(c)(3) Subissue used to finance the 501(c)(3) Projects.

2036 Term Bond	December 1, 2035	\$540,000
2036 Term Bond	December 1, 2036	\$565,000

The Defeased Bonds are being defeased to December 1, 2016, the first call date of the Bonds, which is within ten and a half years from date of issuance of the Bonds.

The City will transfer \$[_____] of funds that are not proceeds of any tax-exempt obligation into the Defeasance Escrow. The Defeasance Escrow will be invested in the securities identified in the Verification Report, attached as Exhibit A hereto (the “**Escrow Securities**”). The Escrow Securities are being acquired pursuant to a bidding process that occurred on July __, 2014, as detailed in Exhibit B. The Defeasance Escrow will be invested, on a composite basis, at a yield not exceeding [_____]%, which does not exceed the yield on the Bonds, 4.488289%, as shown in the Original Tax Certificate. The Escrow Securities consist of bonds issued by the United States Treasury or in other investments that do not cause the Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code or Treasury Regulation § 1.149(b)-1.

The Defeasance Escrow is being established within 90 days of the date that the Arts Rehearsal Space is being transferred to the private entity. Pursuant to Treasury Regulation § 1.141-2(d)(3), the City will provide a notice of establishment of the defeasance escrow to the Commissioner of the Internal Revenue Service within 90 days, in substantially the form attached as Exhibit C.

2.3 Weighted-Average Maturity. The weighted-average maturity of the Bonds remaining outstanding immediately after defeasance of the Defeased Bonds will not be greater than the weighted-average maturity of the outstanding Bonds immediately before defeasance of the Defeased Bonds.

2.4 Ongoing Compliance. Except as described in this Supplemental Tax Certificate, the Issuer and the City have complied with the terms of the Original Tax Certificate with respect to the Bonds. The Bonds are not currently under examination by the IRS, and the tax-exempt status of the Bonds is not at issue in any court proceeding and is not being considered by the IRS Office of Appeals.

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Dated: July __, 2014

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Treasurer

CITY OF SACRAMENTO

By _____
City Treasurer

EXHIBIT A
VERIFICATION REPORT

EXHIBIT B

ESCROW SECURITIES

EXHIBIT C

FORM OF LETTER TO IRS

July __, 2014

**BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Internal Revenue Service
1111 Constitution Avenue, N.W.
Attention T:GE:TEB:O
Washington, D.C. 20224

Re: Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A
(Community Reinvestment Capital Improvement Program)

Dear Sir or Madam:

In accordance with Treasury Regulation Section 1.141-12(d)(3), the City of Sacramento (the "City") and the Sacramento City Financing Authority (the "Authority") hereby provides notice of the defeasance of \$2,575,000 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) in accordance with a remedial action taken attributable to a change in use by the City and Issuer.

If you require any additional information, please contact the undersigned.

Very truly yours,

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Treasurer

CITY OF SACRAMENTO

By _____
City Treasurer