This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy 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 a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which said offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED ________, 2006

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, 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 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code (the "Code") In the further opinion of Bond Counsel, interest on the Series A Bonds is not a specific preference item for purposes of 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 also observes that interest on the Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds See "TAX MATTERS "

$____________*

SACRAMENTO CITY FINANCING AUTHORITY

$____________*
2006 Capital Improvement Revenue Bonds, Series A
(Community Reinvestment Capital Improvement Program)

$____________*
2006 Taxable Capital Improvement Revenue Bonds, Series B
(Community Reinvestment Capital Improvement Program)

Dated: Date of Delivery

Due: December 1, as shown on inside cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

The Bonds are being issued by the Sacramento City Financing Authority (the "Authority") for the purpose of providing funds (i) to finance public capital improvements and redevelopment projects within the City of Sacramento and related working capital expenditures, (ii) to fund reserve subaccounts for the Bonds and (iii) to pay costs of issuance of the Bonds

The Bonds are limited obligations of the Authority and are payable solely from Revenues, which consist primarily of amounts payable by the City of Sacramento (the "City") pursuant to a Sixth Amendment to Master Project Lease as described herein, and certain amounts on deposit with the Trustee (together with certain investment earnings) See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The Bonds are being issued pursuant to an Indenture dated as of June 1, 2006 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee The Bonds are issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only Interest on the Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2006. Payments of principal, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein.

[Payment of the principal of and interest on the Bonds will be insured by a municipal bond new issue insurance policy to be issued by ________________ simultaneously with the delivery of the Bonds.]

[Insurer Logo]

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE FROM AND SECURED AS TO THE PAYMENT THEREOF SOLELY FROM THE REVENUES AND THE OTHER FUNDS PROVIDED IN THE INDENTURE FOR THEIR PAYMENT. THE BONDS ARE NOT A DEBT OF THE CITY OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY), AND NEITHER THE CITY NOR THE STATE OF CALIFORNIA NOR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR.

Maturities, principal amounts, interest rates and yields on the Bonds are set forth on the inside cover.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority and the City by the City Attorney of the City of Sacramento, and by Orrick, Herrington & Sutcliffe LLP, in its capacity as Authority Bond Counsel and City Special Counsel, and for the Underwriters by Nixon Peabody LLP, San Francisco, California It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about June __, 2006.

Merrill Lynch & Co.

Goldman, Sachs & Co.
E. Wagner & Associates, Inc.

Stone & Youngberg, LLC
Siebert Brandford Shank & Co., LLC

Dated: __________, 2006

* Preliminary, subject to change

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Maturity Schedule*

$________________

SACRAMENTO CITY FINANCING AUTHORITY
2006 Capital Improvement Revenue Bonds, Series A
(Community Reinvestment Capital Improvement Program)

$__________ Serial Bonds

Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number	Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number

$_________ ______% Term Bonds due December 1, 20__, Yield ____%, CUSIP† No. _________
$_________ ______% Term Bonds due December 1, 20__, Yield ____%, CUSIP† No. __________
$_________ ______% Term Bonds due December 1, 20__, Yield ____%, CUSIP† No. _________

$_________________

SACRAMENTO CITY FINANCING AUTHORITY
2006 Taxable Capital Improvement Revenue Bonds, Series B
(Community Reinvestment Capital Improvement Program)

$__________ Serial Bonds

Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number	Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number

$_________ ______% Term Bonds due December 1, 20__, Yield ____%, CUSIP† No. _________

* Preliminary, subject to change

† Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This 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, the Authority and the Underwriters take no responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the Underwriters, the Authority or the City to give any information or to make any representations in connection with the offer and sale of the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from the Authority, the City and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this 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 Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applicable to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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. The achievement of results or other expectations contained in forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor the City plan to issue any updates or revisions to those forward-looking statements in any event.

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

MAYOR AND CITY COUNCIL

AND

SACRAMENTO CITY FINANCING AUTHORITY BOARD

Heather Fargo - Mayor
Ray Tretheway - District 1
Sandy Sheedy - District 2
Steve Cohn - District 3
Robert King Fong - District 4
Lauren R. Hammond - District 5
Kevin McCarty - District 6
Robbie Waters - District 7
Bonnie Pannell - District 8

CITY OF SACRAMENTO

City Personnel and Authority Staff

Ray Kerridge, City Manager
John Dangberg, Assistant City Manager
Marty Hanneman, Assistant City Manager
Cassandra Jennings, Assistant City Manager
Gus Vina, Assistant City Manager
Thomas P. Friery, City Treasurer
Eileen M. Teichert, City Attorney
Shirley Concolino, City Clerk

SPECIAL SERVICES

TRUSTEE
The Bank of New York Trust Company, N.A.

AUTHORITY BOND COUNSEL AND
CITY SPECIAL COUNSEL
Orrick, Herrington & Sutcliffe LLP

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OFFICIAL STATEMENT

$__________*

SACRAMENTO CITY FINANCING AUTHORITY

$____________*	$____________*
2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program)	**2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program)**

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide certain information concerning the issuance by the Sacramento City Financing Authority (the "Authority") of its 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the "Series A Bonds") in the aggregate principal amount of $________* and its 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program) (the "Series B Bonds" and together with the Series A Bonds the "Bonds") in the aggregate principal amount of $____________.* The Bonds are being issued to provide funds (i) to finance public capital improvements and redevelopment projects within the City of Sacramento and related working capital expenditures, (ii) to fund reserve subaccounts for the Bonds and (iii) to pay costs of issuance of the Bonds. See "THE PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the Government Code of the State (the "Act"), Resolution No. 2006-____ of the Authority adopted on May __, 2006 and Resolution No. 2006-____ of the City of Sacramento (the "City") adopted on May __, 2006 and an Indenture dated as of June 1, 2006 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The City will enter into the Program Obligation (as described below) pursuant to and in accordance with its charter, applicable laws of the State and the foregoing resolutions.

The Authority

The Authority is a joint exercise of powers authority organized under the laws of the State of California (the "State") and composed of the City and the Redevelopment Agency of the City of Sacramento (the "Redevelopment Agency"). The Authority was created primarily to provide financing of public capital improvements and/or the purchase by the Authority of local obligations within the meaning of the Act.

* Preliminary, subject to change

Security for the Bonds

The Bonds are limited obligations of the Authority, payable from and secured as to the payment of the principal thereof and the interest and redemption premium, if any, thereon solely from the Revenues. Generally, Revenues consist of all amounts payable by the City pursuant to the Program Obligation described below, all moneys in the funds and accounts under the Indenture (other than the Rebate Fund and with respect to the subaccounts within the Reserve Account, only in accordance with the provisions of the Indenture) and all investment income with respect to any money held by the Trustee (other than moneys on deposit in the Rebate Fund). The Authority has entered into the Program Obligation pursuant to a program to provide assistance to the City in the financing and refinancing of capital improvements to achieve its public purposes.

The Program Obligation and the Master Project Lease

The Program Obligation, payment on which secures repayment of the Bonds, consists of a Sixth Amendment to Master Project Lease, dated as of June 1, 2006 (the "Sixth Amendment to Master Project Lease") between the Authority and the City. The Sixth Amendment to Master Project Lease amends a Master Project Lease dated as of December 1, 1999, as amended (the "Master Project Lease") between the Authority and the City, pursuant to which the City leases various real properties and improvements thereon from the Authority. See APPENDIX C – "THE MASTER LEASED PROPERTY." The Sixth Amendment to Master Project Lease adds to the real properties and improvements leased under the Master Project Lease (the real properties and improvements so added constitute the "2006 Leased Property"). The Sixth Amendment to Master Project Lease requires the City to make scheduled base rental payments (the "2006 Base Rental Payments") to the Authority for the lease of the 2006 Leased Property. The 2006 Base Rental Payments are calculated to be equal to the scheduled debt service on the Bonds. Payments required to be made by the City pursuant to the Master Project Lease (including the 2006 Base Rental Payments) (the "Base Rental Payments") secure the series of bonds issued by the Authority listed in the table appearing under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Master Project Lease – General." All Base Rental Payments are payable on a parity pursuant to the Master Project Lease. The City has covenanted under the Master Project Lease, assuming the leased facilities are available for use and occupancy by the City, to make the necessary annual appropriations for all such Base Rental Payments from its General Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Master Project Lease" and APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease" for a discussion of certain provisions of the Master Project Lease. See also APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO" for a discussion of certain economic and statistical information with respect to the City.

The Master Site Lease

The real properties leased by the Authority to the City pursuant to the Master Project Lease are first leased to the Authority by the City pursuant to a Master Site Lease dated as of December 1, 1999, as amended (the "Master Site Lease"). Pursuant to a Fifth Amendment to Master Site Lease (the "Fifth Amendment to Master Site Lease"), the City will lease to the Authority additional real property of the City (the "2006 Site," and together with the real property already leased by the City pursuant to the Master Site Lease, the "Master Site").

Additional Bonds; Obligations on a Parity With Obligations under Program Obligation

The Authority may not issue additional bonds under the Indenture (but may issue bonds or other obligations under other indentures).

The City may, pursuant to the terms of the Master Project Lease, incur obligations payable from sources of funds on a parity with the sources of funds to be used for the payment of obligations under the Master Project Lease. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease."

Bonds Constitute Limited Obligations

The Bonds are limited obligations of the Authority payable from and secured as to the payment thereof solely from the Revenues and the other funds provided in the Indenture for their payment. The Bonds are not a debt of the City or the State of California or any public agency thereof (other than the Authority), and neither the City nor the State of California nor any public agency thereof (other than the Authority) is liable therefor.

[Bond Insurance]

[Concurrently with the issuance of the Bonds, the Authority will cause to be delivered a municipal bond new issue insurance policy (the "Bond Insurance Policy") issued by ____________________ (the "Insurer"). The Bond Insurance Policy will guarantee the scheduled payment when due of the principal (but not the prepayment premium) of and interest on the Bonds. The premium for the Bond Insurance Policy will be paid in full by the Authority at the time of the issuance and delivery of the Bonds. See "BOND INSURANCE."]

Continuing Disclosure

The City has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than the last day of the ninth month following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2006 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with any then-existing State Repository for the State of California (collectively, the "Repositories"). Currently, there is no State Repository for the State of California. The notices of material events will be filed with the Repositories or the Municipal Securities Rulemaking Board (and with the appropriate State information repository, if any). Annual and material event filings may be made by transmitting filings to the Disclosure USA website maintained by the Municipal Advisory Counsel of Texas or any successor thereto, or to any other intermediary approved by the Securities and Exchange Commission. These covenants will be made in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). As of the date hereof, the City has never failed to comply in any material respect with any previous undertakings with regard to the provision of annual reports or notices of material events as required by the Rule. See APPENDIX F – "PROPOSED FORM OF THE CITY CONTINUING DISCLOSURE CERTIFICATE" herein.

Summaries Not Definitive; Definitions

Brief descriptions of the Bonds, the Indenture, the Master Project Lease, the Sixth Amendment to Master Project Lease, the Fifth Amendment to Master Site Lease, the Master Site Lease, the Authority, the City and [the Insurer] are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bonds, the Indenture, the Master Project Lease, the Sixth Amendment to Master Project Lease, the Fifth Amendment to Master Site Lease and the Master Site Lease are qualified in their entirety by reference to the actual documents, copies of all of which are available for inspection at the corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Indenture. Definitions of certain terms used in this Official Statement are set forth in APPENDIX D—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Additional Information

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any Bondowner may obtain a copy of any such report, as available, from the Trustee or the City. Additional information regarding this Official Statement may be obtained by contacting the Trustee or:

Mr. Thomas P. Friery
City Treasurer
City of Sacramento
915 I Street
HCH, Room 300 #0900
Sacramento, California 95814
(916) 808-5168

THE PLAN OF FINANCE

General

The Authority will apply the proceeds of the Bonds, net of costs of issuance and the amounts deposited in the reserve fund subaccounts for the Bonds, to make a payment to the City, which the City, in turn, will use (i) to pay the costs of certain capital projects in the City and related working capital and (ii) to advance funds to the Redevelopment Agency (which will, in turn, use such funds to finance the acquisition, construction and improvement of certain capital projects of the Redevelopment Agency), as further described below.

Community Improvement Capital Reinvestment Program Projects

The City will apply approximately $_________ of the Bond proceeds to pay the costs of various capital improvement projects within the City that constitute part of the City's Community Reinvestment Capital Improvement Program (collectively, the "City Projects") and related working capital expenses. The City Projects may include but are not limited to construction of and improvements to libraries, theaters, museums, parks, transportation facilities, community centers, animal shelters, playgrounds, auditoriums and infrastructure. Certain of the City Projects may be financed through grants or loans from the City to nonprofit corporations. The City may apply a portion of the Bond proceeds to pay the cost of various other capital improvement projects at the discretion of the City Council.

Advance to Redevelopment Agency

In connection with the issuance of the Bonds, the City and the Redevelopment Agency will enter into new advance repayment agreements and amendments to existing advance repayment agreements (collectively, the "Advance Repayment Agreements"). Pursuant to the Advance Repayment Agreements, the City will advance approximately $25,500,000 of the Bond proceeds to the Redevelopment Agency for use in financing the acquisition, construction and improvement of certain capital projects of the Redevelopment Agency located within the City. Under the Advance Repayment Agreements, the Redevelopment Agency will be obligated to repay such advances, as well as advances previously made by the City under the Advance Repayment Agreements, from tax increment revenues generated by the North Sacramento Redevelopment Project Area, the Army Depot Redevelopment Project Area, the Richards Boulevard Redevelopment Project Area and the 65th Street Redevelopment Project Area. However, such repayments by the Redevelopment Agency to the City are not pledged as security for the Bonds and do not constitute Revenues under the Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are as follows:

	Series A	Series B	Total
Sources:			
Principal Amount of Bonds	$	$	$
[Original Issue Premium/Discount]			
Total Sources	$	$	$
Uses:			
Deposit to Series A Program Account(1)	$	$	$
Deposit to Series B Program Account (1)			
Deposit to Series A Reserve Subaccount			
Deposit to Series B Reserve Subaccount			
Costs of Issuance(2)			
Total Uses	$	$	$

(1) To be used to finance public capital improvements within the City of Sacramento.
(2) Includes underwriters' discount, legal fees, financing and consulting fees, fees of bond counsel, printing costs, [bond insurance premiums], rating agency fees and other miscellaneous expenses

THE BONDS

General

The Bonds will be dated the date of their delivery and will bear interest from such date payable on December 1, 2006 and semi-annually thereafter on June 1 and December 1 in each year. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day calendar months.

The Bonds will be delivered in fully registered form only, and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest on the Bonds to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. So long as Cede &

Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See APPENDIX G – "BOOK ENTRY ONLY SYSTEM" herein for a further description of DTC and its book-entry system.

Redemption of the Series A Bonds

Optional Redemption. The Series A Bonds maturing on or before December 1, 20__ are not subject to optional redemption prior to maturity. The Series A Bonds maturing on or after December 1, 20__ are subject to optional redemption by the Authority prior to their respective stated maturity dates as a whole or in part on any date on or after December 1, 20__, from any source of available funds, at a redemption price equal to the principal amount of the Series A Bonds or portions thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium.

Mandatory Sinking Fund Redemption. The Series A Bonds maturing on December 1, 20__, December 1, 20__ and December 1, 20__, are subject to mandatory sinking fund redemption by the Authority prior to their respective stated maturity dates, in part on December 1 of each year set forth below, solely from sinking fund payments set forth below due and payable on such dates, at a redemption price equal to the principal amount thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium (subject to modification in the event of optional redemption as described above or extraordinary redemption as described below):

Series A Bonds Maturing
December 1, 20__

Sinking Fund Payment Date (December 1)	Principal Amount
	$
†	

† Final Maturity.

Series A Bonds Maturing
December 1, 20__

Sinking Fund Payment Date (December 1)	Principal Amount
	$
†	

† Final Maturity.

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Series A Bonds Maturing December 1, 20__	
Sinking Fund Payment Date (December 1)	**Principal Amount**
	$
†	

† Final Maturity.

Extraordinary Redemption. The Series A Bonds are subject to extraordinary redemption by the Authority prior to their respective stated maturity dates on any date in part in integral multiples of five thousand dollars ($5,000) principal amount so that the annual amounts of the interest and principal of the Bonds that are allocable to the payment of Base Rental Payments which shall be payable after such redemption date shall be as nearly proportional as practicable to the annual amounts of the interest and principal then payable on all revenue bonds issued by the Authority that are payable from Base Rental Payments then Outstanding, from prepaid Base Rental Payments made by the City from the eminent domain proceeds or net insurance proceeds received under the Master Project Lease under the circumstances and upon the conditions and terms prescribed in the Master Project Lease, at a redemption price equal to principal amount of the Series A Bonds or portions thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium.

Redemption of the Series B Bonds

[***Optional Redemption.*** The Series B Bonds maturing on or before December 1, 20__ are not subject to optional redemption prior to maturity. The Series B Bonds maturing on or after December 1, 20__ are subject to optional redemption by the Authority prior to their respective stated maturity dates as a whole or in part on any date on or after December 1, 20__, from any source of available funds, at a redemption price equal to the principal amount of the Series B Bonds or portions thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium.]

Mandatory Sinking Fund Redemption. The Series B Bonds maturing on December 1, 20__ are subject to mandatory sinking fund redemption by the Authority prior to their stated maturity date, in part on December 1 of each year set forth below, solely from sinking fund payments set forth below due and payable on such dates, at a redemption price equal to the principal amount thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium (subject to modification in the event of optional redemption as described above or extraordinary redemption as described below):

Series B Bonds Maturing
December 1, 20__

Sinking Fund Payment Date (December 1)	**Principal Amount**
	$
†	

† Final Maturity.

Extraordinary Redemption. The Series B Bonds are subject to extraordinary redemption by the Authority prior to their respective stated maturity dates on any date in part in integral multiples of five thousand dollars ($5,000) principal amount so that the annual amounts of the interest and principal of the Bonds that are allocable to the payment of Base Rental Payments which shall be payable after such redemption date shall be as nearly proportional as practicable to the annual amounts of the interest and principal then payable on all revenue bonds issued by the Authority that are payable from Base Rental Payments then Outstanding, from prepaid Base Rental Payments made by the City from the eminent domain proceeds or net insurance proceeds received under the Master Project Lease under the circumstances and upon the conditions and terms prescribed in the Master Project Lease, at a redemption price equal to principal amount of the Series B Bonds or portions thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium.

General Redemption Provisions

Selection of Bonds for Redemption. If less than all of the Bonds of a Series are to be redeemed at the option of the Authority at any one time, the Treasurer shall select the maturity date or dates of the Bonds of such Series to be redeemed, and if less than all of the Bonds of any one Series and maturity are to be redeemed by the Authority at any one time, the Trustee shall select the Bonds or portions thereof of such Series and maturity date to be redeemed in integral multiples of $5,000 in any manner that the Trustee deems appropriate.

Notice of Redemption. The Trustee will mail notice of redemption by first-class mail at least 30 but not more than 60 days prior to the redemption date, to the respective Owners of all Bonds selected for redemption in whole or in part at their respective addresses appearing on the registration books, and to DTC and the Information Services; provided, that neither failure to receive any such mailed notice nor any immaterial defect contained therein shall affect the sufficiency or validity of the proceedings for the redemption; and provided further, that any such notice of redemption may be cancelled or annulled by written request of the Authority to the Trustee at least five days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption. So long as DTC is acting as securities depository for the Bonds, notice of redemption will be mailed to DTC, not to the Beneficial Owners of any Bonds designated for redemption.

In the event of redemption of Bonds or portions hereof (other than mandatory sinking fund redemption), the Trustee shall mail a notice of redemption upon receipt of a Written Request of the Authority, but only after the Authority shall have deposited with or otherwise made available to the Trustee the money required for payment of the redemption price of all Bonds or portions thereof then to be called for redemption (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose, in which event the notice of redemption shall state that the proposed redemption is conditioned on there being on deposit on the redemption date sufficient money to pay the full redemption price of the Bonds or such portions thereof to be redeemed), together with the estimated expense of giving such notice.

Effect of Redemption. If notice of redemption has been duly given under the Indenture and not cancelled as provided in the Indenture and money for the payment of the redemption price of the Bonds or portions thereof so called for redemption is held by the Trustee, then on the date fixed for redemption designated in such notice such Bonds or such portions thereof will become due and payable, and from and after the date so designated interest on the Bonds or such portions thereof so called for redemption shall cease to accrue and the Holders of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

DEBT SERVICE SCHEDULE

The following table sets forth the debt service schedule for the Bonds. (For a table setting forth the debt service on all of the City's outstanding general fund obligations, see the table entitled "GENERAL FUND OBLIGATION DEBT SERVICE" in APPENDIX A hereto.)

	2006 A Bonds		2006 B Bonds			
Payment Date	Principal	Interest	Principal	Interest	Semi-Annual Debt Service	Annual Debt Service
12/1/2006						
6/1/2007						
12/1/2007						
6/1/2008						
12/1/2008						
6/1/2009						
12/1/2009						
6/1/2010						
12/1/2010						
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12/1/2033						
6/1/2034						
12/1/2034						
6/1/2035						
12/1/2035						

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Under the Indenture

The Bonds are limited obligations of the Authority, payable from, and secured as to the payment of the interest thereon and the principal thereof and redemption premiums, if any, thereon solely from the Revenues and certain other funds provided in the Indenture. Under the Indenture, "Revenues" is defined as (a) all Program Obligation Payments, including all amounts realized upon the enforcement of the Program Obligation Payments due under the Program Obligation; (b) all money deposited and held from time to time in any of the accounts and funds established under the Indenture (except the Rebate Fund and with respect to the subaccounts within the Reserve Account, only in accordance with the provisions of the Indenture); and (c) all investment income with respect to any money held by the Trustee in the accounts and funds established under the Indenture (except the Rebate Fund). Pursuant to the Indenture, the Bonds are secured by a first pledge of and charge and lien upon the Revenues for the payment of the interest on and principal of and redemption premiums, if any, on the Bonds as and when they respectively become due in accordance with the terms thereof.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE FROM AND SECURED AS TO THE PAYMENT THEREOF SOLELY FROM THE REVENUES AND THE OTHER FUNDS PROVIDED IN THE INDENTURE FOR THEIR PAYMENT. THE BONDS ARE NOT A DEBT OF THE CITY OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY), AND NEITHER THE CITY NOR THE STATE OF CALIFORNIA NOR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR.

Master Project Lease

General. The Program Obligation to be acquired by the Authority with the proceeds of the Bonds consists of the Sixth Amendment to Master Project Lease. Set forth below is a brief description of the Master Project Lease as amended thereby. For a more complete description of the provisions of such documents, see APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

Pursuant to the Sixth Amendment to Master Project Lease, the Authority has agreed to lease to the City the 2006 Leased Property, and the City has agreed to pay the 2006 Base Rental Payments on the terms and conditions set forth in the Master Project Lease. Pursuant to the Sixth Amendment to Master Project Lease, the 2006 Leased Property is added to the Master Leased Property, and the 2006 Base Rental Payments constitute Base Rental Payments pursuant to the Master Project Lease. All Base Rental Payments (including the 2006 Base Rental Payments) are payable on a parity pursuant to the Master Project Lease. The Master Project is described generally below under "The Master Leased Property" and in APPENDIX C—"THE MASTER LEASED PROPERTY."

The City and the Authority originally executed and entered into the Master Project Lease in conjunction with the Authority's 1999 Capital Improvement Revenue Bonds (see table below). This lease provided for the City to lease from the Authority certain parcels of real estate and their related improvements. These parcels were leased to the Authority from the City pursuant to a Master Site Lease, executed and dated on December 1, 1999.

The City subsequently amended the Master Project Lease and the Site Lease on July 1, 2000, April 1, 2001, July 1, 2002, September 1, 2003 and, in the case of the Master Project Lease, June 1, 2005. Base Rental Payments required to be made by the City pursuant to the Master Project Lease secure the series of bonds issued by the Authority listed in the following table.

All Base Rental Payments (including the 2006 Base Rental Payments) are payable on a parity pursuant to the Master Project Lease. The following table describes the dates of execution and subsequent five amendments preceding the Sixth Amendment to Master Project Lease. Also included are the initial principal amounts and outstanding amounts of bonds that will be secured by Base Rental Payments upon the delivery of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Master Project Lease—Base Rental Payments."

Leases and Adoption Dates	Authority Bonds and Initial Principal Amount Secured by Base Rental Payments	Outstanding Amount of Bonds Secured by Base Rental Payments (upon delivery of the Bonds)
Master Project Lease December 1, 1999	1999 Capital Improvement Revenue Bonds (Solid Waste and Redevelopment Projects) $15,635,000	$1,460,000
First Amendment to Master Project Lease July 1, 2000	2000 Capital Improvement Revenue Bonds (City of Sacramento 2000 Public Safety and Parking Improvements) $40,745,000	$0
Second Amendment to Master Project Lease April 1, 2001	2001 Capital Improvement Revenue Bonds, Series A (Water and Capital Improvements Projects) $206,780,000	$133,675,000
Third Amendment to Master Project Lease July 1, 2002	2002 Revenue Bonds, Series A (City Hall and Redevelopment Projects) $133,660,000	$90,545,000
Fourth Amendment to Master Project Lease September 1, 2003	2003 Capital Improvement Revenue Bonds (911 Call Center and Other Municipal Projects) $68,470,000	$66,765,000
Fifth Amendment to Master Project Lease June 1, 2005	2005 Refunding Revenue Bonds (Solid Waste, Redevelopment and Master Lease Program Facilities) $143,730,000	$143,730,000

Base Rental Payments. Pursuant to the Master Project Lease, the City agrees to pay to the Authority as rental for the use and occupancy of the Master Leased Property (defined below), Base Rental Payments in amounts sufficient to pay debt service on the Bonds and the allocable portion of any other bonds (including the bonds identified in the table above) payable from Base Rental Payments.

Covenant to Appropriate. Under the Master Project Lease, the City covenants to take such action as may be necessary to include all Base Rental Payments (including the 2006 Base Rental Payments) and any Additional Rental Payments due under the Master Project Lease in its annual budgets and to make the necessary annual appropriations for all such rental payments. The City agrees under the Master Project Lease to furnish to the Trustee, within ninety (90) days after the final adoption of each annual budget of the City, a certification that the annual proposed budget of the City for the fiscal year beginning on such date contains such necessary annual appropriations. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease —Annual Budgets; Reporting Requirements" herein.

Master Leased Property. The property which, from time to time, will be the subject of the Master Project Lease (the "Master Leased Property") will be selected by the City from an inventory of City-owned property required to be maintained by the City pursuant to the Master Project Lease. The City has obligated itself to maintain not less than 50% of the pool of assets comprising the Master Leased Property as assets identified as "Essential Assets." "Essential Assets" include generally property necessary to provide municipal services related to the health, safety and welfare of the citizens of the City. For example, among other things, police, fire, transportation, solid waste, animal control, communication, infrastructure, city cemetery, parking, tree maintenance and City support and administrative facilities and utilities are classified as "Essential Assets." Assets which are classified as "Non-Essential" are leisure, cultural and recreational facilities including City-owned parks, zoos, open space, golf courses, City library facilities and museums and learning centers. [Currently, the Master Leased Property includes three public parks, a police station, a police garage and eight fire stations located in the City in addition to the corporation yard, animal control shelter and seven parks to be added to the Master Leased Property pursuant to the Master Project Lease.] For a description of the assets currently leased pursuant to the Master Site Lease and the Master Project Lease and additional information regarding the City-owned property that may be included in the pool of assets available to be leased under the Master Project Lease from time to time comprising the Master Leased Property, see APPENDIX C – "THE MASTER LEASED PROPERTY" herein.

The Master Project Lease may be amended to add additional property to the Master Leased Property leased under the Master Project Lease to enable the City to secure the payment of additional bonds of the Authority payable from additional Base Rental Payments. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease—Addition or Deletion of Portions of the Project" herein.

The City may amend the Master Project Lease to add, delete or substitute any real property comprising the Master Leased Property upon delivery to any bond insurer, the rating agencies then rating the Bonds and the Trustee, among other items, (i) a certificate of the City evidencing, among other things, (A) that the fair annual rental value of the Master Leased Property after such amendment will be at least equal to 125% of the maximum amount of Base Rental Payments becoming due in the then current or in any subsequent year ending on December 1; (B) that the Master Leased Property is composed of at least 50% "Essential Assets" after such amendment; (C) that such amendment does not adversely affect the City's use and occupancy of the Master Leased Property for the purposes intended; and (D) that the useful life of the Master Leased Property after any such amendment equals or exceeds the remaining term of all of the bonds secured by the Base Rental Payments. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease—Addition or Deletion of Portions of the Project" herein.

Abatement. During any period in which, by reason of material damage or destruction or condemnation there is substantial interference with the use and possession by the City of any portion of the Master Leased Property, the Base Rental Payments will be subject to abatement. Any such interference shall first be allocated to that portion of the Master Leased Property usable by the City that was not financed or refinanced with the proceeds of any revenue bonds issued by the Authority, and thereafter Base Rental Payments due under the Master Project Lease will be abated proportionately by the fractional amount that the cost of the portion of the Master Leased Property financed or refinanced with the proceeds of any revenue bonds issued by the Authority that are payable on a parity from Base Rental Payments damaged or destroyed or condemned bears to the entire cost of the Master Leased Property. The foregoing calculation will be made by the City and set forth in writing to the Authority, the Trustee, any bond insurer and the rating agencies. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendment to Master Project Lease—Rental Abatement" herein.

Pursuant to the Master Project Lease, in the event that Base Rental Payments due pursuant to the Master Project Lease are abated (in whole or in part) the City and the Authority have agreed to use their best efforts to substitute in place of the damaged, destroyed or condemned real property, consistent with the limitations contained in the Master Project Lease (as described above), other real property and improvements of the City. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease—Substitution of Portions of the Project" herein.

Reserve Subaccounts. Pursuant to the Indenture, there is established within the Reserve Account in the Revenue Fund a Reserve Subaccount for each Series of Bonds. Bond proceeds shall be deposited in each such Reserve Subaccount in an amount equal to the Reserve Requirement for the related Series of Bonds (which amount is $__________ for the Series A Bonds and $_____________ for the Series B Bonds upon delivery of the Bonds). See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Indenture Definitions." Except for withdrawals of amounts in excess of the applicable Reserve Requirement as provided in the Indenture, amounts held in each Reserve Subaccount may be used and withdrawn solely for the purpose of paying any deficiency in 2006 Base Rental Payments with respect to the related Series of Bonds. The City agrees in the Sixth Amendment to Master Project Lease that, if ever either Reserve Subaccount is drawn upon, the first 2006 Base Rental Payments made thereafter shall be used to restore such Reserve Subaccount to an amount equal to the applicable Reserve Requirement; provided, that after the related Series of Bonds are no longer Outstanding under the Indenture, any balance of money remaining in the related Reserve Subaccount shall be transferred to such other fund or account of the City or shall be otherwise used by the City for any lawful purpose as the City may direct. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease—Reserve Subaccounts" herein.

Certain Covenants of the City. Under the Master Project Lease, the City agrees that it will, at its own cost and expense, maintain, preserve and keep the Master Leased Property in good repair and working order, pay all taxes or other charges which may be levied upon the Master Leased Property, maintain insurance on the Master Leased Property (either through commercial carriers or, to the extent permitted by the Master Project Lease, self insurance), and cause the net proceeds of any insurance payment or any condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of such damaged, destroyed or condemned portion of the Master Leased Property (or prepay the Master Project Lease). See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First, Second, Third, Fourth, Fifth and Sixth Amendments to Master Project Lease—Insurance" herein.

Master Project Lease Not Debt. The obligations of the City under the Master Project Lease do not constitute debt of the City within the meaning of any constitutional or statutory debt limitation and neither the full faith and credit nor the taxing power of the City or any agency or department thereof is pledged to the payment of the rental payments due under the Master Project Lease.

No Cross-Collateralization. The Authority has other series of bonds outstanding that are secured by and payable from existing Base Rental Payments. Such payments are not available to pay the 2006 Base Rental Payments and do not secure the Bonds. See "General" for a description of the Authority's other outstanding bonds.

BOND INSURANCE

[to come if applicable]

RISK FACTORS

General

The following general risk factors should be considered along with all other information in this Official Statement by potential investors in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future. Some of the events which could affect the receipt of Revenues by the Authority in an amount sufficient to pay the principal of and interest on the Bonds are outlined below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Certain additional factors relating to the City to be considered are described in APPENDIX A – "GENERAL INFORMATION CONCERNING THE CITY OF SACRAMENTO."

All Base Rental Payments (including the 2006 Base Rental Payments) are payable on a parity pursuant to the Master Project Lease. The ability of the Authority to pay principal of and interest on the Bonds depends primarily upon the timely receipt by the Authority of the Revenues from the Program Obligation.

Program Obligation Not a Debt of the City. The obligation to make the Base Rental Payments under the Master Project Lease do not constitute a debt of the City within the meaning of any constitutional or statutory debt limitation and neither the full faith and credit nor the taxing power of the City, or any agency or department thereof is pledged to the payment of the Base Rental Payments pursuant to the Master Project Lease.

Bankruptcy and Equitable Limitations. The rights and remedies provided in the Program Obligation may be limited by and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the Bonds, the Indenture, the Master Project Lease and other related documents, by bankruptcy, reorganization, moratorium, insolvency, fraudulent conveyance or other similar laws relating to or affecting the enforcement of creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitation on legal remedies against public agencies in the State.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners and the Trustee could be prohibited from taking any steps to enforce their rights under the Program Obligation and the Indenture, and from taking any steps to collect amounts due from the City under the Program Obligation.

Factors Affecting the City's Ability to Make Payments from its General Fund Under the Master Project Lease

Abatement. Base Rental Payments under the Master Project Lease are subject to abatement in the event of any interference with the City's use of all or a portion of the Master Leased Property due to damage, destruction or condemnation. While the City is obligated to use its best efforts to substitute property under the Master Project Lease for any facility of the Master Leased Property damaged, destroyed or condemned, the City may be prevented from doing so by, among other things, the inability to identify substitute property meeting the requirements of the Master Project Lease, and there can be no assurance that any such substitution will, in fact, be made. The following sections detail some of the risks which may lead to such abatement.

Flood Risk Considerations. In and around the City, flooding caused by river overflow or heavy rainfall could cause possible damage to property in the City. Normally, water is contained within the rivers, creeks, canals, and adjacent levee systems. During the severe winter storms in the Sacramento area in 1986 and again in 1997 the American and Sacramento River levee systems carried a record volume of water due to heavy rainfall of long duration. Although these storms caused some flooding in certain areas, the major levee systems that protect the City from disaster withstood the record water flows.

In response to these flood events, the U.S. Army Corps of Engineers ("COE") has conducted hydrology studies on the lower American River in 1989, in 1997, and again in 1999.

In late 2004, the COE and the Sacramento Area Flood Control Agency ("SAFCA") completed levee improvements on the American River that improved the level of flood protection from that river to the 100-year criteria considered by the Federal Emergency Management Agency ("FEMA") as the minimum threshold for mandatory flood insurance. Portions of the Sacramento River levee in the Pocket Area of the City have not been certified to provide 100-year protection by the COE. Additional work will be required to bring these levees up to the 100-year certification level. SAFCA, the State and the COE intend to complete the necessary work to repair the Sacramento River levee in the Pocket Area for certification of the levee to provide 100-year protection by the end of calendar year 2006.

On February 18, 2005, FEMA issued a Letter of Map Revision that updated the City's previous Flood Insurance Rate Maps ("FIRMs") dated July 6, 1998 to reflect the flood control improvement projects that have been completed and to remove large portions of the City from the 100-year floodplain area. A 100-year floodplain is the area expected to be inundated during a flood of the magnitude for which there is a 1% probability of occurrence in any year. Some of the Master Leased Property is within the FEMA 100-year floodplain. FEMA requires mandatory flood insurance for mortgages of structures in a 100-year floodplain with lenders insured by the Federal Deposit Insurance Corporation or who fund loans that are sold or secured by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. In the life of a 30-year mortgage the probability of flood related damage to a structure in a 100-year floodplain is approximately 25%.

Some of the Master Leased Property is located within an area that is designated as "Zone A99." A "Zone A99" is defined as an area of special flood hazard that is in the process of being protected from the 100-year flood by a federally authorized flood control project that has progressed to a defined level of completion. Flood insurance is mandatory in a Zone A99 but there are no federal building restrictions within this zone.

The COE released a study in 1998, "South Sacramento County Streams," which identified an underlying 100-year floodplain due to Morrison Creek and its tributaries in the southern portion of the City. The Morrison Creek floodplain is within the area of the American River flood plain and the

Sacramento River floodplain. Congress has authorized funding for a COE project, "South Sacramento Stream Group Project." When completed, the project will provide 100-year protection from Morrison Creek and its tributaries to the Pocket area of the City and a large portion of the Meadowview area of the City. Phase 1A improvements to Morrison Creek west of the Union Pacific railroad tracks were completed at the end of 2005. Phase 1B improvements are anticipated to be completed by the end of 2006.

Recent hydrological analysis of levees in the Sacramento area has called into question whether portions of the levees are in a condition sufficient to provide adequate protection in the event of a 100-year flood event. A public review draft report prepared by SAFCA in March 2006 provided preliminary data indicating that approximately 20 of the 26 levee miles which provide protection to the North Natomas basin do not meet current underseepage and erosion criteria. A preliminary estimate of the cost of necessary repairs exceeded $260 million. This public review draft report is still being reviewed by the COE. Subject to the COE's concurrence with the report's findings, failure to correct the condition of the levees could cause FEMA to remap areas within North Natomas, including property where Master Leased Property is located, to be within a 100-year floodplain, which could have the effect, among others, of causing a significant increase in the cost of flood insurance to homeowners, to area businesses and to the City. In addition, the City could be compelled to impose restrictions on planned property development within the North Natomas area which could have an adverse impact on property tax revenues of the City. Should there be a levee failure allowing flooding within the City, there could be damage to Master Leased Property, potentially resulting in abatement as discussed above, or other property within the City could be damaged, which could have an adverse impact on the property values within the City (and hence property tax revenues received by the City).

There can be no assurances that future flooding will not result in damage, destruction or condemnation of any facility of the Master Leased Property.

Hazardous Substances. Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substances condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, it is possible that liabilities may arise in the future with respect to any of the Master Leased Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of the affected property or adjacent property. However, the City intends to substitute other property meeting the requirements of the Master Project Lease for any property which suffers damage, destruction or condemnation and becomes subject to abatement.

Seismic Factors. The City's use and occupancy of any of the Master Leased Property may be interfered with as a result of a major earthquake in the geographical area of the City. The area of the City, like those in much of California, may be subject to unpredictable seismic activity. Although the City believes that no active or inactive fault lines pass through or near the City, if there were to be an occurrence of severe seismic activity in the City, there could be damage to the Master Leased Property of a magnitude sufficient to cause interference with the City's use and occupancy of the Master Leased Property.

Other Uninsured or Underinsured Loss of Use or Occupancy. The City may be unable to use and occupy all or a portion of the Master Leased Property as a result of casualty losses, including as a result of fire, landslide or subsidence, earthquake, flood, act of war or terrorism, or as a result of a title defect. The City's all risk property insurance has a $100,000 deductible and a $1,000,000,000 limit shared among all of Driver Alliant's Public Entity Property Insurance Program members. The policy includes a $30,000,000 dedicated flood insurance limit for the City and does not provide earthquake coverage. There is a combined $100,000,000 limit on the City's business interruption, rental interruption and tax interruption insurance for all City facilities leased under master leases. Should the City lose the ability to use and occupy all or a portion of the Master Leased Property, insurance proceeds might not be available or might be insufficient to pay debt service on the Bonds.

Recurring State Budget Deficits. The State has been experiencing serious budgetary shortfalls for the past four fiscal years, and it is currently projected to experience budgetary shortfalls in the future. Although the ability of the State to use local government revenues to balance future State budgets has been limited by recently enacted Proposition 1A, State budget decisions may still have a profound impact on the City. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO."

Possible Recognition of Taxable Gain or Loss upon Defeasance of the Series B Bonds

Defeasance of any Series B Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Series B Bond.

CONSTITUTIONAL AND STATUTORY 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 XIIIA of the State Constitution

Section 1(a) of Article XIIIA 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 XIIIA), to be collected by counties and apportioned according to law. Section 1(b) of Article XIIIA 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 XIIIA 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 XIIIA 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 XIIIA. 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, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIIIA. 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 residence 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 XIIIA 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 XIIIA 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—Property Taxation within the City" herein.

Article XIIIB of the State Constitution

Article XIIIB 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 XIIIB 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 XIIIB 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 XIIIB 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 XIIIB 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 (including the Master Project Lease) are generally excluded from the City's appropriations limit. **[confirm that this applies for all of the projects]**

The City's appropriation limit for the 2006-07 fiscal year is estimated to be $508,337,000 for which expenditures subject to the appropriation limitation are $348,491,000.

Articles XIIIC and XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID 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 XIIIC 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 which 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 which must be held within two years of November 5, 1996. The voter approval requirements of Article XIIIC 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 were imposed prior to January 1, 1995 and have not been extended or increased since such date, such taxes should be exempt from the requirements of Article XIIIC. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIIIC.

Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The City currently levies assessments for three service districts, 42 maintenance districts and six property and business improvement districts. These assessments total approximately $17.5 million annually. The City believes that each of such assessments and districts complies with the requirements of Article XIIID, unless otherwise exempt. Subsequent increases of such assessments, if any, would be required to comply.

The City also levies assessments for 24 improvement districts under the California improvement district acts, which assessments total approximately $15.8 million annually. Each of such assessments, unless otherwise exempt, secure bonded indebtedness payable from such assessments and have no claim on the City's General Fund.

Article XIIIC 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.

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities 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) requires 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) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires 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 *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In response to the *Santa Clara* decision, the California Legislature adopted Assembly Bill 1362, which provided that the *Santa Clara* decision 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 *Santa Clara* decision on a retroactive basis remains unclear.

The *Santa Clara* 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, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

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

Proposition 1A

As part of Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, 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 XIIIA, XIIIB, XIIIC and XIIID 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.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement dated October 1, 1989, by and between the City and the Redevelopment Agency of the City of Sacramento in accordance with the provisions of Articles 1, 2 and 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Board of Directors of the Authority is comprised of the members of the City Council. The Authority was created primarily for the purpose of providing financing for public capital improvements and/or the purchase by the Authority of local obligations within the meaning of the Act.

THE CITY

The City is a charter city incorporated in 1849 and the location of the State capitol. The City is located approximately 75 miles northeast of San Francisco, in the south central portion of the Sacramento Valley. For a more detailed description of the City, including certain economic and demographic information relating to the City, see APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO" herein.

CERTAIN LEGAL MATTERS

The validity of the Bonds under certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel Opinion is contained in Appendix E to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Authority and the City by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, in its capacity as Authority Bond Counsel and City Special Counsel. Neither Bond Counsel nor Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than the last day of the ninth month following the end of the fiscal year (which currently would be by March 31 based upon the June 30 end of the City's fiscal year), commencing with the report for the 2006 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). Annual and material event filings may be made by transmitting filings to the Disclosure USA website maintained by the Municipal Advisory Counsel of Texas or any successor thereto, or to any other intermediary approved by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events will be set forth in a Continuing Disclosure Certificate related to the Bonds substantially in the form set forth in APPENDIX F – "PROPOSED FORM OF CITY CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in any material respect with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

LITIGATION

There is no litigation pending or, to the knowledge of the Authority or the City, threatened in any way to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, the Master Project Lease, the Sixth Amendment to Master Project Lease or any proceeding of the Authority or the City with respect thereto. In the opinion of counsel to the Authority (subject to the limitations set forth in such counsel's legal opinion rendered in connection with the issuance of the Bonds) there are no lawsuits or claims pending against the Authority which will materially affect the ability of the Authority to pay the principal and interest of the Bonds when due. In the opinion of the City Attorney (subject to the limitations set forth in such counsel's legal opinion rendered in connection with the issuance of the Bonds) there are no lawsuits or claims pending against the City which will materially affect the ability of the City to pay the Base Rental Payments under the Master Project Lease.

TAX MATTERS

Series A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("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 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series A Bonds is not a specific preference item for the purposes of 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 opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Series A Bonds is less than the amount to be paid at maturity of such Series A Bonds (excluding amounts stated to be interest and payable at least annually over the term of the Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series A Bonds which is excluded from gross income for federal income tax purposes and from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series A Bonds is the first price at which a substantial amount of such maturity of such Series A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of such Series A Bonds accrues daily over the term to maturity of such Series A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Bonds. Beneficial owners of the Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of owners who do not purchase such Series A Bonds in the original offering to the public at the first price at which a substantial amount of such Series A Bonds is sold to the public.

Series A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and an beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series A Bonds. The City and the Authority have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series A Bonds may adversely affect the value of, or the tax status of interest on, the Series A Bonds.

Certain requirements and procedures contained or referred to in the Master Project Lease, the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

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

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, 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 Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City and the Authority 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 and the Authority covenanted, however, to comply with the requirements of the Code.

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

Series B Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, interest on the Series B Bonds is exempt from State of California personal income taxes and is **not** excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series B Bonds. The proposed form of opinion of Bond Counsel is contained in APPENDIX E hereto.

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series B Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury Regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series B Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Series B Bonds that are "U.S. holders" (as defined below), deals only with Series B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold Series B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of Series B Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series B Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a Series B Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury Regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Series B Bonds. The Series B Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the Series B Bonds that allocate a basis in the Series B Bonds that is greater than the principal amount of the Series B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Series B Bonds for an amount that is less than the principal amount of the Series B Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Series B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Series B Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Series B Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

Original Issue Discount. The Series B Bonds may be issued with original issue discount ("OID"). Accordingly, a holder of a Series B Bond would be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Series B Bond. Thus, the holders of such Series B Bonds would be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such notes with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. A holder of a

Series B Bond that purchases a Series B Bond for less than its adjusted issue price (generally its accreted value) will have purchased such Series B Bond with market discount. If such difference is not considered to be de minimis, then such discount ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Series B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A holder of a Series B Bond that has an allocated basis in the Series B Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the Series B Bond with acquisition premium. The amount of OID that such holder of a Series B Bond must include in gross income with respect to such Series B Bonds will be reduced in proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Series B Bond. A holder of a Series B Bond may have a basis in its pro rata share of the Series B Bonds that is greater than the principal amount of such Series B Bonds. Holders of Series B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such Series B Bonds under section 171 of the Code.

Sale and Exchange of Series B Bonds. Upon a sale or exchange of a Series B Bond, a holder generally will recognize gain or loss on the Series B Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such Series B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Series B Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a Series B Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the Series B Bond. In general, if the Series B Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

See also, "Risk Factors – Possible Recognition of Taxable Gain or Loss upon Defeasance of the Series B Bonds" herein regarding reissuance of the Series B Bonds upon defeasance.

Foreign Investors. Distributions on the Series B Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series B Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

Circular 230. Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Series B Bonds.

RATINGS

Moody's Investors Service Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("Standard & Poor's"), [are expected to assign the Bonds the ratings of "___" and "___" respectively, with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by the Insurer. In addition, Moody's and Standard & Poor's have assigned the underlying ratings of "___" and "___" respectively, without regard to the Bond Insurance Policy.] Each rating reflects only the views of such organization and any explanation of the significance of such rating may be obtained only from Moody's or Standard & Poor's. There is no assurance that any rating will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds. The Authority and the City undertake no responsibility to oppose any such revision or withdrawal.

AUDITED FINANCIAL STATEMENTS

Audited financial statements of the City for the fiscal year ended June 30, 2005 are attached hereto as Exhibit B. The City's financial statements were audited by the independent accounting firm of Macias, Gini & Company LLP. The auditors have not consented to the inclusion of their report in this Official Statement.

UNDERWRITING

The Bonds are being purchased by the Underwriters (for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative). The Underwriters have agreed to purchase the Bonds for $__________ (which represents the $__________ aggregate principal amount of the Bonds less an underwriters' discount of $_________ and [plus/less] a net original issue [premium/discount] of $__________). The Contract of Purchase pursuant to which the Underwriters are purchasing the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in such contract of purchase.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

EXECUTION AND DELIVERY

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

SACRAMENTO CITY FINANCING AUTHORITY

By:________________________________

Thomas P. Friery
Treasurer

CITY OF SACRAMENTO

By:________________________________

Thomas P. Friery
City Treasurer

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO

Introduction

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 the State's Central Valley. Although the City is approximately 75 air miles northeast of San Francisco, its temperature range is more extreme than that of most Northern California coastal cities, ranging from a daily average of 45 degrees Fahrenheit in January to 75 degrees Fahrenheit in July. Average elevation of the City is 30 feet above sea level.

The City was incorporated in 1849, although it had been settled in the 1830s. In 1854, Sacramento became the location of the Capitol of the State. Today, State government employees and governmental-related activities contribute substantially to the City's economy.

Government

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

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

Ray Kerridge was appointed City Manager in February 2006 by the Mayor and City Council of the City of Sacramento. Mr. Kerridge joined the City of Sacramento in November 2004 as the Assistant City Manager for Development and oversaw several departments including Development Services, Utilities, Transportation, and Economic Development. Prior to coming to the City of Sacramento, Mr. Kerridge was the City of Portland's Director of the Bureau of Development Services. Mr. Kerridge is credited for making swift changes in the permitting process and recognized for being the catalyst to major customer service improvements. He served the City of Portland for 25 years. Mr. Kerridge is originally from London, UK and began his government career as a structural plans examiner and inspector for the Greater London Council. Prior to this, he worked on site as a site engineer and in the design office of a structural engineering firm.

Cassandra Jennings was appointed Assistant City Manager in May 2005. She currently provides management oversight for Neighborhood Services, Code Enforcement, Economic Development and Convention Culture and Leisure, and is the liaison with the Joint Power Authorities (the Sacramento Housing and Redevelopment Agency, Library and the Sacramento Employment and Training Agency). Prior to joining the City team, Mrs. Jennings was the Deputy Executive Director of the Sacramento Housing and Redevelopment Agency (Agency) where she held various leadership positions over the past 18 years. Mrs. Jennings is very active in the community including serving on numerous boards such as American Leadership Forum, Florin Road Foundation, Oak Park Outreach, Valley Vision, The

Sacramento Chapter of the Links Incorporated and American Lung Association Emigrant Trails. Mrs. Jennings received a Bachelor of Arts in Urban Studies from the University of Maryland, College Park and a Masters in Public Administration from the University of San Francisco.

Gustavo F. Vina was appointed Assistant City Manager in January 2006. Mr. Vina's areas of responsibility are Finance, Information Technology, Human Resources, Labor Relations, and Internal Coordination. Mr. Vina joined the City of Sacramento in July 1999 as the City's Finance/Budget Manager. In September 2001, Mr. Vina was promoted to the City's Finance Director position overseeing the Accounting, Budget, Revenue, Emerging and Small Business Development and Procurement Divisions. Prior to joining the City of Sacramento, Mr. Vina served as Deputy Director of Finance, Neighborhood Services Division Manager, Safe Neighborhoods Program Manager, Contract Compliance Manager and Principal Budget Analyst during his 10 years with the City of Stockton. In addition to local government experiences, Mr. Vina worked with the State of California in various capacities for nine years. Mr. Vina graduated with a Master of Public Administration from the University of San Francisco and a Bachelor of Science in Business Administration from California State University, Sacramento.

Marty Hanneman was appointed Assistant City Manager in January 2006 and prior to such appointment, was the Director for the Department of Transportation from 2004 up to his current appointment. Mr. Hanneman's areas of responsibilities are the Departments of Transportation, Utilities, Parks & Recreation, General Services and Development Services and Planning. Since Mr. Hanneman's start with the City in 1994, he has held several, engineering and managerial positions in the Department of Public Works. Mr. Hanneman graduated from the State University of New York at Buffalo with a Bachelor of Science Degree in Civil Engineering and a Masters of Science Degree in Civil Engineering from California State University, Sacramento.

John Dangberg was appointed Assistant City Manager in May 2006. His primary responsibility is to lead the City's economic development agenda and serve as lead negotiator on highly visible projects. Mr. Dangberg brings over 20 years of Economic Development experience in both private and public industry and government. Prior to joining the City, he was Executive Director of Capitol Area Development Authority and the Director of Community Development for the Sacramento Housing and Redevelopment Agency. [add education]

Thomas P. Friery, City Treasurer, was appointed to that position in December 1978. Prior to that appointment, Mr. Friery was the Assistant Treasurer of the Washington Public Power Supply System from 1976 to 1978, a financial consultant to the State Legislature from 1974 to 1976, Senior Investment Officer for the Regents of the University of California from 1969 to 1974, Assistant Investment Officer for the State from 1968 until 1969, and Senior Systems Programming Analyst for the Federal Reserve Bank of Cleveland from 1962 until 1968. Mr. Friery is a 1965 graduate of Dyke College in Cleveland, Ohio, with a business degree and an accounting major. Mr. Friery also holds a Corporate Cash Management certification from the Wharton School's Entrepreneurial Center, as well as an Accredited California Municipal Treasurer certification from the California Municipal Treasurers' Association (CMTA).

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

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

Employee Relations

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

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

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

All 12 bargaining units have current contracts, with 11 contracts expiring in June 2010 and the Fire Unit up for renewal in June 2008. Salary and benefits for all units are defined until the contracts expire.

Employee's Retirement Plan

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

All full time and certain part time City employees hired after January 28, 1977 and all Sacramento Housing and Redevelopment Agency and City safety employees, regardless of date of hire, are eligible to participate in PERS. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report and a separate report for the City's plans within PERS may be obtained from the PERS Executive Office at 400 Q Street, Sacramento, CA 95814.

All full time, non safety employees hired before January 29, 1977, excluding Sacramento Housing and Redevelopment Agency, 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, 915 I Street, 4th Floor, Sacramento, CA 95814.

The tables below summarize key trends since 2000 in the City's retirement plans. Additional information regarding the City's employee retirement plans, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 8 to the City's audited financial statements set forth in Appendix B hereto.

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

PERS - Miscellaneous Employees

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) - Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2000	$ 207	$261	$(54)	126%	$ 89	(61%)
2001	237	275	(38)	116	97	(39)
2002	271	265	6	98	111	5
2003	326	278	48	85	119	40
2004	365	304	61	83	125	49

Source: PERS actuarial valuations through June 30, 2004.

PERS - Safety Employees

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) - Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2000	$538	$663	$(125)	123%	$ 64	(195%)
2001	617	682	(65)	111	67	(97)
2002	680	641	39	94	77	51
2003	725	646	79	89	76	104
2004	772	678	94	88	79	118

Source: PERS actuarial valuations through June 30, 2004.

PERS - SHRA

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) - Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2000	$49	$68	$(19)	138%	$ 13	(144%)
2001	55	71	(16)	129	14	(114)
2002	61	66	(6)	109	15	(38)
2003	70	68	2	97	16	12
2004	75	72	4	95	16	24

Source: PERS actuarial valuations through June 30, 2004.

SCERS

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) - Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2001	$360	$435	$(75)	121%	$15	(500%)
2002	362	381	(19)	105	12	(158)
2003	363	386	(23)	106	12	(192)
2004	363	394	(31)	108	13	(238)
2005	370	374	(3)	101	12	(25)

Source: PERS actuarial valuations through June 30, 2005.

The City also provides defined contribution retirement benefits through the City of Sacramento 401(a) Money Purchase Plan (the "Plan"). The Plan is administered by the International City Management Association Retirement Corporation. Plan provisions and contribution requirements are established and may be amended by City Council. Unrepresented exempt and certain represented employees may elect to participate. Participating employees of the aforementioned groups are required to contribute 5% and 2% and the City contributes 4% and 2%, respectively, of covered salary. For the year ended June 30, 2005, employees contributed $1,977,000 and the City contributed $1,593,000 to the Plan.

The City provides health and dental care insurance benefits for all retirees, their survivors and dependants. Participants have the choice of enrolling in one of several health plans and one of two dental plans. For City employees, excluding Sacramento Housing and Redevelopment Agency, to be eligible for these benefits, the employee must retire with a minimum of ten full years of active service and be 55 or 50 years of age for miscellaneous and safety employees, respectively. Participants with less than twenty years of service are eligible for 50% of the maximum benefit. Those participants with a minimum of twenty years of service are eligible for 100% of the maximum benefit. The post retirement health care and dental care benefits are up to $369 per month per participant, which covers between 21% and 100% of the benefit cost, depending on the choice of plan and number of dependants.

City benefits are defined by labor agreements approved by the City Council. Benefit costs are recorded on a pay as you go basis as nondepartmental expenditures. For the most recent Fiscal Year, the City expended approximately $5.8 million for post employment health and dental care insurance benefits. The City provided coverage for approximately 2,198 retirees and/or families.

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Other Post Employment Benefits ("OPEB") provided by the City, separately from a pension plan, include health and dental care insurance contributions and an implied rate subsidy for retirees. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The City's retiree post employment health and dental benefits fall under Statement No. 45. The effective date of the Statement No. 45 reporting requirements for the City is Fiscal Year 2007-08 (the first Fiscal Year period beginning after December 15, 2006). The City contracted with Bartel and Associates to provide an actuarial study to calculate the accumulated post retirement benefit obligation with respect to post retirement health and welfare benefits offered to its employees. The preliminary results of the study found the City's actuarial accrued liability to be in the range of $200 to $400 million. The range of the liability is based upon varying assumptions to be made regarding the level of future benefits, advance funding, and amortization periods.

CITY FINANCES

City Budget

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

To establish the annual budget, departments are tasked with developing a plan for expenditure of projected available resources for the coming Fiscal Year. Labor costs are updated to reflect salary and benefit changes called for in union contracts. Estimates for unrepresented employees are also updated. Department Fund managers, in coordination with the Budget Division of the Finance Department and Budget staff, review actual revenue receipts, economic and revenue forecasts from an outside consultant and revenue forecasts to determine what resources will be available to support operating requirements. The Department of Finance develops estimates of tax revenues and other discretionary revenues. Similarly, capital improvement program priorities are married with available funds from over 22 different funding sources.

A base budget is prepared. This base budget updates the costs of maintaining service and staffing levels into the new budget year. The base budget also includes the updated estimates of revenues and other financing sources. The base budget contains the operating and capital budgets. Proposed operating and capital budget documents are prepared and are transmitted to the Mayor and City Council as required by City Charter on or before May 1st of each year. The Mayor and Council review the proposed operating and capital improvement budget in public hearings.

The City is making significant changes to the budget process for Fiscal Year 2006-07. There is a new manner of making those incremental changes to the budget which occur each year after the base budget requirement is identified. This new process includes integration of the Mayor and City Council's Strategic Plan for the City with the allocation of financial resources and participation of the Mayor and City Council earlier in the budget process. The Mayor and City Council identify strategic plan focus areas and specific goals within each focus area early in the annual budget cycle. Teams of departments then prepare an analysis of current efforts towards achieving the goals and estimates of additional resources needed to better achieve those goals.

The annual budget hearings are also changed. Rather than having a series of hearings revolving around the individual departmental budgets, the hearings will revolve around the strategic plan focus areas. The base budget will be presented to the Mayor and City Council early in the process. Then the Mayor and City Council will conduct hearings on the strategic planning focus areas and the goals within those focus areas. Any available resources will be applied to the goals.

Following the amendment of the budgets to incorporate changes engendered 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 2005-06 was adopted on June 21, 2005. The proposed budget for Fiscal Year 2006-07 is available on the City's website, www.cityofsacramento.org. Information on the website is not incorporated herein by reference. The City Council is expected to adopt the budget for Fiscal Year 2006-07 on June 20, 2006.

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The following table shows the original approved budgets for Fiscal Years 2001-02 through 2005-06.

GENERAL FUND BUDGETS
(in thousands)

	2001-02 Approved Budget	2002-03 Approved Budget	2003-04 Approved Budget	2004-05 Approved Budget	2005-06 Approved Budget
Available Funds:					
Property Taxes	$ 50,800	$ 54,623	$ 57,660	$ 67,041	$ 121,711
Sales and Use Taxes	65,241	62,350	63,100	65,775	56,250
Utility Users Tax	55,000	50,000	48,960	50,500	56,750
Other Taxes	27,209	15,713	16,931	22,374	23,022
Licenses and Permits	14,413	13,663	14,681	17,671	20,284
Fines, Forfeitures and Penalties	4,887	4,688	5,380	5,462	6,082
Use of Money	2,400	2,850	3,201	2,705	3,454
Intergovernmental Revenue	33,350	36,606	35,659	36,951	18,720
Charges, Fees and Services	20,385	22,189	24,932	27,071	27,567
Other Revenues	1,105	644	879	945	3,043
Transfers from Other Funds	0	0	17,792	17,889	18,360
Revenue Loss	0	0	0	(6,000)	(8,000)
Total Resources	$274,790	$263,326	$289,175	$308,384	$ 347,243
Requirements:					
Current Operations:					
Employee Services	$232,785	$246,100	$252,310	$285,530	$ 311,981
Other Services and Supplies	88,970	94,021	93,225	93,525	97,119
Equipment	414	259	134	841	478
Debt Service	12,539	13,303	15,461	17,472	18,022
Labor/Supply Offset	(19,784)	(21,958)	(23,218)	(25,489)	(31,646)
Use of Contingency	810	1,000	1,000	1,000	1,000
Operating Transfers	(39,173)	(42,134)	(41,014)	(46,472)	(47,819)
Subtotal Current Operations	$276,561	$290,591	$297,898	$326,407	$ 349,135
Capital Improvements:					
General Government	$ 8,949	$ 1,047	$ 4,025	$ 2,847	2,240
Public Safety	24,450	250	250	250	350
Public Facilities/Development	2,867	0	1,500	50	0
Culture and Leisure	0	0	0	0	0
Subtotal Capital Improvement	$ 36,266	$ 1,297	$ 5,775	$ 3,147	$ 2,590
CIP Debt or Defunding	(28,000)	0	0	0	0
Total Requirements	$284,827	$291,888	$303,673	$329,554	$ 351,725
Operational Surplus (Deficit)	$ (10,037)	$ (12,541)	$ (14,498)	$ (21,170)	$ (4,482)
Other Financing Sources:					
Beginning Undesignated Fund Balance	$ 1,799	$ 6,682	$ 1,137	$ 5,987	$ 3,837
Other	8,577	9,352	14,075	15,742	860
Total Other Sources	$ 10,376	$ 16,034	$ 15,212	$ 21,729	$ 4,697
Ending Undesignated Fund Balance	$ 339	$ 3,493	$ 714	$ 559	$ 215
Fund Balance Reserve for Economic Uncertainty	$ 17,532	$ 19,612	$ 25,650	$ 29,150	$ 29,150

Source: City of Sacramento

General Fund Financial Summary

The information contained in the table on the following page is summarized from audited financial statements for Fiscal Years 2000-01 through 2004-05 of the City.

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

	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05
Revenues:					
Property Taxes	$ 48,916	$ 52,757	$ 57,772	$ 64,377	$ 109,227
Sales and Use Taxes	62,588	59,515	62,018	66,234	55,341
Utility Use Tax	49,969	48,609	48,675	52,538	53,893
Other Taxes	16,315	17,796	20,098	24,711	29,372
Licenses and Permits	9,474	13,982	14,982	18,902	18,738
Fines, Forfeitures and Penalties	4,907	4,507	4,919	5,795	6,288
Interest, Rents and Concessions	7,169	5,302	3,636	2,199	3,867
Intergovernmental Revenues	36,208	36,742	36,510	32,488	24,721
Charges, Fees and Services	12,758	15,850	18,103	19,948	30,333
Other Revenues	1,019	803	751	546	310
Total Revenues	$249,323	$255,863	$267,464	$287,738	332,090
Expenditures:					
General Government	$ 18,864	$ 19,158	$ 21,627	$ 24,006	$ 25,440
Public Safety	120,748	136,312	144,223	150,942	175,926
Public Works	10,776	11,602	12,830	14,700	13,840
Neighborhood Services	43,244	50,496	51,884	57,294	63,575
Non-Departmental	17,241	20,311	21,263	21,462	26,952
Capital Improvements	4,002	12,261	21,578	13,305	11,294
Debt Service	1,442	845	514	318	2,209
Total Expenditures	$216,317	$250,985	$273,919	$282,027	319,236
Excess of Revenues over (under) Expenses	$ 33,006	$ 4,878	$ (6,455)	$ 5,711	$ 12,854
Other Financing Sources (Uses):					
Transfers from Other Funds	15,222	16,198	31,828	29,046	21,173
Transfers to Other Funds	(13,199)	(12,671)	(13,582)	(26,501)	(20,656)
Proceeds from Long-Term Debt	–	–	–	1,363	2,100
Total Other Financing Sources (Uses)	$ 2,023	$ 3,527	$ 18,246	$ 3,908	$ 2,617
Net Change in Fund Balance	$ 35,029	$ 8,405	$ 11,791	$ 9,619	15,471
Fund Balance Previously Reported	$ 63,708	$ 94,823	$102,068	$113,859	123,478
Prior period adjustment	(3,914)	(1,160)	–	–	14,477
Fund balance, beginning of year, as restated	$ 59,794	$ 93,663	$102,068	$113,859	$ 137,955
Ending Fund Balance	$ 94,823	$102,068	$113,859	$123,478	$ 153,426
Less Reserves and Designations:					
Non-Current Assets	1,373	1,179	1,742	1,200	1,305
Encumbrances	9,296	13,400	7,864	12,410	10,790
Designated for Economic Uncertainty	17,532	19,612	25,650	29,150	30,000
Designated for Future Labor Costs	0	0	0	0	12,000
Designated for Future PERS costs	0	0	16,000	20,300	7,800
Designated for Franchise Fee Allocation	0	0	2,400	0	0
Designated for Energy Reserve	0	0	4,548	0	0
Designated for Disaster Recovery	0	0	0	4,000	6,000
Designated for Grant Match	0	0	0	2,200	2,200
Designated for Federal Mandates	9,000	0	0	0	0
Designated for Growth Initiatives	0	0	0	0	7,500
Designated for State Impacts	0	0	0	0	2,900
Designated for Capital Projects	31,724	27,683	24,276	20,143	20,601
Designated for Subsequent Years' Expenditures	17,000	33,407	24,999	22,829	38,897
Fund Balance Available for Appropriation	$ 8,898	$ 6,787	$6,380	$11,246	$13,433

Source: City of Sacramento

Budget Policies

The City of Sacramento develops its annual budget according to Council-adopted sustainable budget policies. These policies call for one-time funding sources to be used for only one-time operating and capital expenditures. Ongoing expenditures are to be matched with ongoing financing sources. Reserves are to be used in a planned and strategic manner only. Five year forecasts of the General Fund are to be constantly updated as new information becomes available. The City has established an Economic Uncertainty Reserve of $30 million. Full reviews of revenue receipts in comparison of the budgetary estimates are to be performed and corrective actions recommended if necessary. Adherence to these budget policies has enabled the City to avoid service level and staffing reductions during the economic slowdown in the early years of this decade and to provide for significant service augmentations in the past two years.

Financial Schedules

A copy of the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2005 is attached as APPENDIX B hereto. [Prospective investors are encouraged to read the City's Comprehensive Annual Financial Report, including the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements, because it includes important information concerning the City and its financial condition.] Audited financial statements for prior years are available upon request from the Finance Department of the City. Macias, Gini & Company, LLP, Sacramento, California, performed the financial statement audit for the City for the Fiscal Year ended June 30, 2005.

City Independent Audit Policy

An annual audit of the City is required by the Charter. It is Council's policy to competitively select and retain independent accounting firms for five-year periods. The City selected Macias, Gini & Company, LLP to serve as its auditors for a five-year period commencing with Fiscal Year 2001-02.

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

Interfund Borrowing and Cash Flows

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

City Investments

All funds of the City are invested by the City Treasurer. The cash balances of all operating funds of the City of Sacramento, including the General Fund, enterprise funds, and other related entities, are invested in the City's Pool A Fund ("Pool A"). Investments in Pool A are purchased according to the current Investment Policy of the City, which is in compliance with the investment guidelines of the California Government Code (Sections 53601 & 53635). The City Investment Policy is presented quarterly to the City Council for approval. The referenced sections of the current Investment Policy provide the approved credit standards, investment objectives, and specific constraints of Pool A. On a monthly basis, City investments are reviewed by the City's Investment Committee to review transactions and overall compliance with the Government Code and Investment Policy. The Committee also reviews the current investment strategy and guidelines in relation to the current financial and economic environments. On a quarterly basis, the City Treasurer prepares an investment activity and positions report for review by the City Council.

The primary 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 projected economic conditions and the prudent diversification of maturities.

As of March 31, 2006, Pool A was invested in securities with an original cost of $648,412,016 with an average life of 1.3 years and average yield of 3.8%. As of March 31, 2006, the market value of the investments in Pool A was $646,163,445.

Property Taxation Within the City

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

Prior to Fiscal Year 1981-82, property was assessed at 25% of full cash value, which under Article XIIIA of the California Constitution (Proposition 13) resulted in a maximum tax rate of $4.00 per $100 of taxable value, except for taxes to meet debt service on indebtedness approved by the electorate prior to July 1, 1978. Beginning with Fiscal Year 1981-82, property has been assessed at 100% of cash value and the maximum property tax rate is $1.00 per $100 of taxable value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIIIA 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 which would be due on the taxable value of the property qualifying for the exemption, without allowance for delinquencies. The homeowner's exemption is $7,000 of the taxable value ($70 in taxes) of an owner-occupied dwelling, provided the owner files for the exemption.

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

The table below provides a summary of assessed valuations in the City for Fiscal Years 1996-1997 through 2005-06.

GROSS ASSESSED VALUES
FOR ALL TAXABLE PROPERTY
(In Thousands)

	Gross Assessed Value[1]			
Fiscal Year	Secured Roll	Unsecured Roll	Public Utility	Total
1996-97	$15,812,272	$1,193,868	$50,688	$17,056,828
1997-98	15,939,774	1,227,359	53,559	17,220,692
1998-99	16,539,681	1,247,496	57,831	17,845,188
1999-00	17,289,515	1,246,831	58,000	18,594,346
2000-01	18,369,903	1,231,639	54,668	19,656,210
2001-02	19,718,191	1,717,368	57,292	20,946,851
2002-03	21,885,519	1,157,123	66,428	22,946,214
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	1,574,566	56,950	32,743,964

(1) Stated at full value; exclude property subject to redevelopment tax increments.
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 following table provides a list of the City's largest local secured taxpayers for the Fiscal Year ended June 30, 2005.

CITY OF SACRAMENTO
LARGEST LOCAL SECURED TAXPAYERS
(Fiscal Year 2004-05)

Property Owner	Primary Land Use	2004-05 Assessed Valuation	% of Total[1]
400 Capital Mall Venture	Office, General Multi-Story	$140,665	0.55 %
Downtown Plaza LLC	Commercial, Store-Office	131,144	0.51
Arden Fair Associates	Commercial, Regional Shopping	119,187	0.46
GTE Data Service Inc	Office, Large Single Tenant	117,492	0.46
SRI Six USBP LLC	Commercial, Parking Lot	90,648	0.35
Sacramento Hotel Corporation	Hotel	89,164	0.35
McClatchy Newspaper Inc.	Publisher	76,622	0.30
VV USA City LP	Office, General Multi-Story	75,419	0.29
Spieker Properties LP	Office, General	69,514	0.27
Alpine Realty Sacramento LLC	Office, General Multi-Story	65,700	0.25

(1) Fiscal Year ended 6/30/05 Total Assessed Valuation: $25,736,152.
Source: County of Sacramento.

Other Taxes

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

On November 8, 1988, the voters approved Measure A to increase the sales and use tax rate in Sacramento County by ½ of 1 percent for a period of 20 years, which has subsequently been extended for an additional 20 years. With this increase and the 1¼ percent increase implemented pursuant to the 1993-1994 State Budget, the sales and use tax rate in the County is now 7.75%. The proceeds of the Measure A tax increase are administered by the Sacramento Transportation Authority and must be used to fund public road improvements (35% of the revenue), public road maintenance (28%), public transit functions (35%) and elderly and handicapped transportation functions (2%). Over the 20 year period that the tax will be in effect, an estimated $1.1 billion will be generated. Of this amount, approximately $216 million will be for maintenance and new projects within the City. The funds from Measure A can only be used for increased services and will not supplant existing City appropriations. The City budget funds road improvements and maintenance from two special funds: the Gas Tax Fund and Traffic Safety Fund.

As part of the 2003-04 State budget signed by the Governor of the State of California on July 31, 2004 and the State's economic recovery plan, a bond initiative formally known as the "California Economic Recovery Act" was approved by the voters on March 2, 2004. This act authorized the issuance of $15 billion in economic recovery bonds to finance the State's Fiscal Year 2002-03 and Fiscal Year 2003-04 State budget deficits, which are payable from a fund to be established by the redirection of one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction to the State, commencing July 1, 2004. The portion of sales and use tax that otherwise would have been allocated to local governments, including the City, would be decreased by a commensurate amount. Commencing in Fiscal Year 2004-05, local governments' share of local property tax revenues will be restored by an amount equal to the one-quarter cent reduction in the local sales and use tax, creating a revenue neutral effect on local governments for the 2004-05 Fiscal Year and subsequent Fiscal Years. To the extent that property taxes are distributed to local governments less frequently and later in each Fiscal Year than are sales taxes, the City will earn less in interest income from the investment of such moneys. It is expected that the swap of sales taxes for property taxes would terminate once the economic recovery bonds are repaid, which is currently scheduled to occur in 2023. During Fiscal Year 2004-05 this revenue exchange has been implemented with the City receiving less sales tax and greater property tax allocations. See also "Impact of State Budget on City" below.

Proposition 172 was approved by the voters to permanently extend the one-half cent sales tax beyond December 21, 1993. The legislation requires that the sales tax will continue to be deposited to the Public Safety Augmentation Trust Fund for distribution to the County and Cities based on the sales tax allocation percentages previously calculated. The City receives approximately 4% of the Proposition 172 Public Safety revenue allocated to jurisdictions within Sacramento County.

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?"

The City policy prior to the vote was to reduce the tax rate from its high in 1985-86 of 9% to a rate of 5% by 1993-94. This reduction would have been accomplished by reducing the rate by ½ of 1 percent each year. Current City policy is to maintain the tax at 7.5% and to consider annually in its budget review how the additional funds generated from this change in policy might best be used. The Council has adopted certain public safety programs (police, fire and animal control) as programs which would have a high priority for use of these funds.

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 both the federal and state levels. Many of the proposed changes, if implemented, could reduce the utility user tax imposed on telephone and cable television use. At this point the impacts cannot be quantified.

Transient Occupancy Tax. Since 1990, the City has imposed a transient occupancy tax, which is currently 12%. The transient occupancy tax revenues are designated for the City's Community Center Fund (11%), the Metropolitan Arts Commission (1/2%), and the Sacramento Convention and Visitors Bureau (1/2%).

Impact of State Budget on City

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

On July 31, 2004, Governor Schwarzenegger signed into law the 2004-05 State Budget. The 2004-05 State Budget addresses an accumulated State deficit of $22.1 billion. The 2004-05 State budget imposed deep cuts to many parts of state and local governments. Among the 2004-05 budget components affecting the City is the deferral until August 2006 of the payment by the State of the Motor Vehicle License Fee (the "VLF") subvention to cities for the period between the time the VLF was restored to its pre 1988 rate (June 19, 2004) and the effective date of the restored fee (October 1, 2004). The repayment at that time will be without interest. The costs of this deferral to the City is approximately $7.3 million. The repayment of this deferred revenue was accelerated by one year in the state's budget for 2005-06. The funds were repaid to the City in July 2005.

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

SB 1096 further provides that for Fiscal Years 2004-05 and 2005-06, the vehicle fee adjustment amount (and the corresponding amount of property taxes required to be allocated to cities and counties) shall be reduced by a statewide aggregate of $700 million for such Fiscal Years. However, the loss of VLF or backfill revenue was confined to Fiscal Year 2003-04 only.

In addition, as part of the 2004-05 State Budget, in Fiscal Years 2004-05 and 2005-06, each category of cities, counties and special districts will give up $350 million of such property tax revenues, with redevelopment agencies contributing $250 million, for a total of $1.3 billion. The City's General Fund share the concession was approximately $5.4 million for Fiscal Year 2004-05 and Fiscal Year 2005-06. This revenue is expected to be returned to the City in Fiscal Year 2006-07.

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

The Governor's proposed Fiscal Year 2006-07 State Budget was released in January 2006, and includes no significant negative impacts on the City of Sacramento. The budget provides for the return of the property taxes shifts in Fiscal Years 2004-05 and 2005-06.

The proposed 2006-07 State Budget provides continued funding for local governments to make up the difference between the 0.65% rate of the VLF and the previous 2% rate through a reallocation of property tax from schools and community colleges to cities and counties. In 2004-05 and 2005-06, the amount of VLF backfill funding provided to cities and counties has been reduced by $700 million. The allocation of VLF property tax backfill for Fiscal Year 2005-06 was proportional to growth in the equalized property tax roll within the City, 14%. The base VLF growth rate was approximately 4%.

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2005-06 State budget and the proposed Fiscal Year 2006-07 State budget 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 respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. Information on this website is not incorporated herein by reference.

The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's future budget deficits. The state's inability to close its structural budget gap is of concern to local governments. In addition, future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. To the extent that the

State budget process results in reduced sources of funds available to the City, the City will be required to make adjustments to its budgets.

No Default

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

Debt Statement

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of May 1, 2006. 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.

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DIRECT AND OVERLAPPING BONDED DEBT

CITY OF SACRAMENTO

(As of May 1, 2006)

(to come)

General Fund Obligation Debt Service

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

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GENERAL FUND OBLIGATION DEBT SERVICE
AS OF MARCH 31, 2006

Fiscal Year	1991 [1] Marks Roos Rev.	1993 [2] Lease Rev. Bonds	1997 [3] Lease Rev. Bonds	1999 CFD 2 Lease	1999 [4] Cap. Impr Rev.	2001 [5] Cap. Impr Rev.	2002 [6] Cap. Impr. Rev.	2002 [7] COP H St. Theatre	2002 [8] Refunding Rev. Bonds	Capital, Small [9] Equip., Lses, Adv, &Nts	2003 [10] Cap. Impr Rev.	2005 [11] Refunding Rev. Bonds	Total Debt Service Obligations	Percent of [12] FY04-05 General Fund Revenues $ 305,630,000	Total Supported By Other Sources	Adjusted Total Supported By General Fund	Adjusted Percent of FY04-05 General Fund Revenue $ 305,630,000
2006	$ 46,397.50	$ 4,233,847	$ 5,518,050	$	$ 572,624	$ 3,340,485	$ 2,497,744			$ 531,243	$1,501,766	$ 4,208,400	$ 26,684,403	8.73%	$ 19,586,020	$ 7,098,383	2.32%
2007	1,431,398	15,563,126	5,599,421	227,031	2,137,550	9,390,670	11,593,989	1,057,153	5,720,156	1,511,453	4,075,731	8,416,800	82,287,604	26.92	43,000,517	39,287,086	12.85
2008		15,556,784	5,668,088	232,656	2,125,703	9,402,745	11,160,101	1,054,100	5,692,256	1,403,977	4,069,556	8,416,800	80,339,550	26.29	42,779,509	37,560,041	12.29
2009		15,546,066	5,768,069	232,813	2,706,296	10,113,683	10,507,451	1,054,640	5,690,578	1,381,177	4,068,119	8,779,400	81,394,357	26.63	42,939,826	38,454,532	12.58
2010		15,536,027	5,934,404	232,656	3,059,680	10,104,164	10,485,626	1,053,789	5,665,563	628,551	4,067,309	9,166,400	81,470,195	26.66	45,321,780	36,148,415	11.83
2011		15,527,202	5,843,233	237,031	3,154,695	10,095,676	10,481,083	1,048,711	5,661,888	266,613	4,061,009	9,982,900	81,887,242	26.79	44,030,601	37,856,641	12.39
2012		15,509,721	5,999,695	240,781	3,153,213	10,085,570	10,468,801	1,052,226	5,651,375	102,599	4,059,253	9,980,800	81,813,755	26.77	45,611,755	36,202,000	11.85
2013		15,492,536	6,096,018	243,906	1,360,725	5,678,685	10,479,501	1,052,531	5,642,625	102,599	4,057,920	16,173,100	81,872,683	26.79	43,237,329	38,635,355	12.64
2014		15,479,208	6,175,822	246,406	1,360,226	5,581,500	10,464,454	1,051,712		102,599	4,053,148	16,248,725	76,243,009	24.95	4,888,132	31,354,876	10.26
2015		15,468,171	6,265,013	243,438	1,356,813	5,581,500	5,736,483	1,049,678		102,599	5,128,205	20,526,225	76,926,294	25.17	44,634,610	32,291,683	10.57
2016		15,437,935	6,412,263	245,000	1,353,748	5,581,500	4,822,908	1,051,448		102,599	5,283,043	21,427,600	77,155,977	25.24	47,151,749	30,004,228	9.82
2017		15,430,735	6,361,380	245,938	1,351,258	5,581,500	4,809,120	1,051,938		102,599	5,331,490	21,404,850	77,101,541	25.23	45,459,286	31,642,256	10.35
2018		15,408,975	6,518,699	251,094	1,350,723	5,581,500	5,308,151	1,051,108		102,599	5,384,795	20,886,350	77,252,968	25.28	46,768,867	30,484,101	9.97
2019		15,391,035	6,609,088	255,313	1,346,998	5,581,500	3,258,518	1,048,918			5,534,870	17,481,100	71,898,373	23.52	40,218,978	31,679,394	10.37
2020		15,369,890	6,688,908	253,750	1,344,938	5,581,500	3,292,875	1,050,215			4,363,863	17,425,225	70,741,053	23.15	41,843,265	28,897,788	9.46
2021		15,348,515	6,840,092	256,406	1,344,544	5,581,500	2,698,768	1,044,958			3,941,005	16,470,100	68,874,402	22.54	39,540,443	29,333,959	9.60
2022			6,823,396	262,969	1,345,544	5,581,500	2,790,500	1,047,831			3,955,885	16,337,475	38,145,100	12.48	29,699,379	8,445,721	2.76
2023			6,966,010	263,438	1,342,519	13,240,125	6,255,250	1,043,975			3,978,691	5,685,600	38,775,607	12.69	26,676,573	12,099,035	3.96
2024			7,053,333	262,969		13,232,500	5,782,875	1,043,000			3,989,568	5,537,225	36,901,469	12.07	14,310,056	22,591,413	7.39
2025			7,144,171			13,224,625	5,778,125	1,044,625			3,900,519	5,538,688	36,630,752	11.99	25,366,635	11,264,117	3.69
2026			7,236,308			13,210,625	5,779,000	1,044,500			3,924,875	5,527,644	36,722,951	12.02	27,541,370	9,181,582	3.00
2027			7,336,880			13,199,500	5,775,000	1,042,625			3,935,625	5,533,631	36,823,261	12.05	25,530,471	11,292,790	3.69
2028			7,401,354			13,190,000	5,765,875	1,039,000			3,958,875	5,537,250	36,892,354	12.07	27,711,960	9,180,394	3.00
2029						13,176,000	5,751,375	1,038,500			4,091,125	5,517,000	29,574,000	9.68	18,154,830	11,419,170	3.74
2030						13,161,375	5,755,625	1,036,000			4,107,000	5,514,500	29,574,500	9.68	20,279,660	9,294,840	3.04
2031						13,149,750	5,747,875	1,036,375			4,128,750		24,062,750	7.87	13,358,875	10,703,875	3.50
2032						13,134,750	5,737,875	1,034,500			4,155,625		24,062,750	7.87	15,543,255	8,519,495	2.79
2033						13,120,000	5,734,875	1,035,250			4,182,000		24,072,125	7.88	13,325,000	10,747,125	3.52
2034											4,202,500		4,202,500	1.38	1,737,795	2,464,705	0.81
Offsetting Sources =>	100.0%		100.0%	0.0%	100.0%	100.0%	30.0%	100.0%	40.0%	Varies	39.4%	86.5%					

(1) 1991 Marks Roos Revenue Bonds support: (SHRA, CFD 97-01B avg. annl. 42.5%, DS)
(2) 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.
(3) 1997 Lease Revenue Bonds support: ARCO Arena Sublease. Assumes the fixed rate established pursuant to the Swap Agreement for the 1997 Bonds for the entire life of the 1997 Bonds.
(4) 1999 Capital Improv Rev. Bonds support: 38.8% Solid Waste, 61.2% SHRA (39.2% Loan and 22.0% Master Lease)
(5) 2001 Capital Improv Rev. Bonds support: 98.4% Water, 1.6% Golf
(6) 2002 Capital Improv Rev. Bonds support: 70.6% General Fund, 29.4% SHRA
(7) Obligation is payable from H Street Theatre Revenues.
(8) Refunded the 1991 COP(Public Facilities) and 1991 COP (Light Rail): 60% General Fund, 40% Community Center Fund
(9) Capital, Small Leases, Advances and Notes support: various levels from Other Sources
(10) 2003 Capital Improv Rev. Bonds support: 60.65% - General Fund, 39.35% - Other Sources
(11) Refunded the 1999 CIRB (23.94%), 2000 CIRB (21.75%), 2001 CIRB (35.09%), 2002 CIRB (18.94%)
(12) Data based on FY 04/05 Approved Budget

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CITY ECONOMICS

Population

The following chart indicates the change in population of the City, the County and the State of California during the past five calendar years.

CITY OF SACRAMENTO
2002-2006 Population Estimates

Calendar Year	City of Sacramento	County of Sacramento	State of California
2002	426,660	1,287,426	35,088,671
2003	435,506	1,317,806	35,691,472
2004	444,005	1,344,867	36,245,016
2005	452,050	1,366,937	36,728,196
2006	457,514	1,385,607	37,172,015

Source: State of California, Department of Finance; estimates as of January 1.

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.

Labor force and industry employment data have been gathered for the Sacramento Arden Arcade Roseville Metropolitan Statistical Area, which consists of El Dorado, Placer, Sacramento and Yolo counties. This information is shown in the following table for the years 2001 through 2005. These figures may not necessarily accurately reflect employment trends in the City.

SACRAMENTO METROPOLITAN STATISTICAL AREA
Annual Average Labor Force Employment and Unemployment and Industry Employment[1]

	2001	2002	2003	2004	2005
Civilian Labor Force	832,800	863,800	871,600	1,000,800	1,020,000
Employment	798,800	818,500	827,300	950,600	971,900
Unemployment	34,000	45,300	44,300	50,200	48,100
Unemployment Rate	4.1%	5.2%	5.1%	5.0%	4.7%
Industry Employment					
Government	218,100	226,800	226,200	221,100	224,100
Trade, Transportation and Utilities	140,600	140,600	143,100	146,200	149,000
Publishing, Information and Telecommunications	22,300	23,100	21,900	20,900	19,900
Business and Professional Services	99,300	96,100	95,800	97,500	102,600
Educational and Health Services	75,900	78,000	81,000	84,500	87,500
Leisure and Hospitality	72,200	75,200	77,300	79,400	82,200
Other Services	27,700	28,200	28,000	28,400	28,800
Finance, Insurance, Real Estate	52,500	55,200	59,400	60,100	58,900
Manufacturing	49,800	47,000	46,300	47,100	49,000
Construction	59,500	61,300	66,500	70,400	73,300
Natural Resources and Mining	900	800	700	700	700
Total Nonagricultural Industries	818,800	832,300	846,200	856,300	880,300
Total Farm	4,000	3,400	7,500	7,400	7,100
Total All Industries[2]	822,800	835,700	853,700	863,700	887,400

(1) Data not seasonally adjusted. Employment data is based on place of residence, includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Totals may not add due to rounding.
Source: State of California Employment Development Department

The following table lists the largest employers in the Sacramento area, including employees outside of the City. Major private employers in the area include those in healthcare, electronics, retail, and package delivery services. Major public sector employers include the State of California and the County of Sacramento.

SACRAMENTO COUNTY
MAJOR EMPLOYERS
AS OF JANUARY 1, 2006

Company	Location	Industry
Aerojet Fine Chemicals LLC	Rancho Cordova	Electronic Equipment Manufacturer
American River College	Sacramento	Schools-Business & Vocational
California State University	Sacramento	Schools-Universities & Colleges Academic
Child Abuse Prevention Office	Sacramento	Government-Individual/Family Social Services
Corrections Department	Sacramento	State Government-Correctional Institutions
Department Of Health Services	Sacramento	State Government-Education Programs
Disabled American Veterans	Sacramento	Veterans' & Military Organizations
Education Department	Sacramento	State Government-Education Programs
Employment Development Department	Sacramento	Government-Job Training/Voc Rehab Services
Gen Corp Inc.	Rancho Cordova	Aerospace Industries
Kaiser Foundation Hospital	Sacramento	Healthcare(1)
Mercy General Hospital	Sacramento	Healthcare(1)
Mercy San Juan Medical Center	Carmichael	Healthcare(1)
Sacramento Bee Newspaper	Sacramento	Newspapers (Publishers)
Sacramento City College	Sacramento	Schools-Business & Vocational
Sacramento County Water Quality	Sacramento	County Government-Environmental Programs
Sacramento County Airport	Sacramento	Airports
Sacramento County Sheriff Department	Sacramento	Sheriff
SMUD Customer Service Center	Sacramento	Electric Utility(1)
Social Services Department	Sacramento	State Government-Social/Human Resources
Sutter Memorial Hospital	Sacramento	Healthcare(1)
U.C. Davis Medical Center	Sacramento	Healthcare(1)
University Of California Surgery Clinic	Sacramento	Healthcare(1)
Water Resource Department	Sacramento	State Government-Environmental Programs
Wild Zone	Sacramento	Novelties-Retail

Source: State of California Employment Development Department
(1) Source of industry designation: City of Sacramento

Median Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County of Sacramento, the State of California and the United States for the period 2002 through 2005.

EFFECTIVE BUYING INCOME
2002 through 2005

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2002	City of Sacramento	$6,604,013	$34,715
	Sacramento County	$22,127,827	$40,690
	California	$650,521,407	$43,532
	United States	$5,303,481,498	$38,365
2003	City of Sacramento	$6,596,088	$33,949
	Sacramento County	$22,645,845	$39,879
	California	$647,879,427	$42,484
	United States	$5,340,682,818	$38,035
2004	City of Sacramento	$7,082,308	$34,324
	Sacramento County	$23,979,765	$40,448
	California	$674,721,020	$42,924
	United States	$5,466,880,008	$38,201
2005	City of Sacramento	$7,478,565	$35,407
	Sacramento County	$25,154,530	$41,593
	California	$705,108,410	$43,915
	United States	$5,692,909,567	$39,324

Building Permit Activity

The following table shows the number and value of new building permits issued in the City during calendar years 2000 through 2005.

CITY OF SACRAMENTO
New Building Permit Valuation
For Calendar Years 2001 through 2005
(Valuations in Thousands)

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	$399,498.1	$479,627.8	$483,080.6	$429,519.8	$221,471.2
New Multi-family	61,143.3	96,733.3	198,917.8	112,839.4	$119,021.7
Res. Alterations/Additions	67,105.1	75,538.1	82,911.9	120,170.6	$115,835.6
Total Residential	527,746.5	651,899.2	764,910.3	662,529.8	426,328.5
New Commercial	66,545.8	97,108.8	99,722.5	92,793.6	53,862.8
New Industrial	32,124.7	30,088.1	18,772.1	35,754.2	40,262.3
New Other	18,461.3	24,527.3	45,164.0	23,234.6	72,838.4
Com. Alterations/Additions	71,294.9	80,310.5	93,859.8	121,622.5	60,324.3
Total Nonresidential	188,426.7	232,034.8	257,518.5	273,404.9	227,287.8
New Dwelling Units					
Single Family	2,745	3,227	3,605	3,108	1,780
Multiple Family	881	1,328	2,368	1,214	1,161
TOTAL	3,626	4,555	5,973	4,322	2,941

Source: City of Sacramento.

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Commercial Activity

During calendar year 2004, total taxable transaction in the City were reported to be $5,670,564,000, a 7.2% increase over the total taxable sales of $5,287,704,000 that were reported in the City during calendar year 2003. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Itemized figures are not currently available for 2005.

CITY OF SACRAMENTO
Taxable Transactions by Type of Business
For Calendar Years 2000 through 2004
(figures in thousands)

	2000	2001	2002	2003	2004
Retail stores:					
Apparel Stores	$ 167,352	$ 165,051	$ 184,332	$ 197,884	$217,533
General Merchandise	617,303	620,208	603,027	613,304	668,864
Food Stores	240,227	248,401	244,110	262,784	268,920
Eating & Drinking Places	438,164	460,409	476,009	508,416	559,897
Home Furnishings, Appliances	119,200	114,345	118,964	119,887	127,725
Building Matl., Farm Implements	328,469	375,303	386,656	413,908	480,420
Auto Dealers, Auto Supplies	476,485	500,189	499,827	509,352	457,911
Service Stations	233,059	233,932	206,977	271,453	317,874
Other Retail Stores	642,159	642,037	659,864	744,086	701,522
Retail Stores Total	3,262,418	3,359,875	3,379,766	3,641,074	3,800,666
All Other Outlets	1,687,758	1,652,508	1,619,829	1,646,630	1,869,898
TOTAL ALL OUTLETS	$4,950,176	$5,012,383	$4,999,595	$5,287,704	5,670,564
Percent Change	8.0%	12.6%	(0.3%)	5.8%	7.2%

Source: State Board of Equalization.

Education

Public school education in the City is available through eight elementary, two high school and six unified school districts. There are approximately 84 private schools in Sacramento County and 70 industrial, technical trade schools. [School enrollment during the 1999-2000 school year was approximately 55,000 in the City public schools.]

The Los Rios Community College District serves the majority of Sacramento County, as well as portions of El Dorado, Placer, Yolo and Solano Counties. The Los Rios Community College District maintains three campuses in Sacramento County: American River College, located in Carmichael (northeast of the City of Sacramento); Sacramento City College located in the City, and Consumnes River College, located in the southern area of the City. The Los Rios Community College District also maintains two education centers in Sacramento County, the El Dorado Center, located in Placerville, and the Folsom Lake Center, located in Folsom.

California State University, Sacramento, offers four-year programs in business administration, liberal arts, engineering, education and nursing, and masters degree programs in various fields. The reported combined enrollment of undergraduate and graduate students for the 2004-05 school year was 27,972. Other higher education facilities located in the City are: McGeorge School of Law branch of the University of the Pacific; the Medical Center of the University of California, Davis; National University;

Lincoln Law School; Golden Gate University; University of Phoenix; the University of Southern California (for public administration); and the University of Northern California (law).

Transportation

Sacramento's strategic location and broad transportation network have contributed to the City's economic growth. The City is traversed by the main east-west and north-south freeways serving northern and central California. Interstate 80 connects Sacramento with the San Francisco Bay Area, Reno, Nevada and points east. U.S. 50 carries traffic from Sacramento to the Lake Tahoe area. Interstate 5 is the main north-south route through the interior of California; it runs from Mexico to Canada. State 99 parallels Interstate 5 through central California and passes through Sacramento.

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

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

Sacramento International Airport is about 12 miles northwest of downtown Sacramento. The airport is served by 13 major carriers and one commuter carrier. Executive Airport, located in Sacramento, is a full-service, 680 acre facility serving general aviation. In addition to Sacramento International Airport [and Mather air field] there are two other County operated general airports and numerous private airports.

APPENDIX B

AUDITED FINANCIAL STATEMENTS
OF THE CITY

APPENDIX C

THE MASTER LEASED PROPERTY
[update list for new assets]

General. The assets currently comprising the Master Leased Property will consist of the assets identified generally below, all of which are in the City. The Base Rental Payments are payable by the City under the Master Project Lease for right to use and possession of the Master Leased Property. Pursuant to the Master Project Lease, upon delivery of the Bonds, the City will be obligated to pay 2006 Base Rental Payments in the aggregate principal component of $__________, as well as the 1999, 2001, 2002, 2003 and 2005 Base Rental Payments in the aggregate principal component of $1,460,000, $133,675,000, $90,545,000, $66,765,000 and $143,730,000, respectively, for the right of use and possession of the Master Leased Property identified below. The Master Project Lease may be amended in the future to add additional property to the Master Leased Property to enable the City to secure the payment of additional bonds of the Authority payable from additional Base Rental Payments under the Master Project Lease. Assets may be also substituted pursuant to the Master Project Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Project Lease – Master Leased Property" herein.

Essential Assets	Estimated Value (Historical)	Non-Essential Assets	Estimated Value (Historical)
Pioneer Reservoir	$40,000,000	Memorial Auditorium	$44,750,965
Granite Regional Park	33,533,136	Cavanaugh Golf Course	26,144,167
Sump #2	30,000,000	Seymour Park	23,140,029
Lot G	25,849,342	Del Paso Park	22,699,660
Hansen Ranch Park Site	22,849,398	Fremont Park	21,170,160
24th Street Corporation Yard	22,347,461	Reichmuth Park	19,028,100
Lot H	21,620,450	Southside Park	17,681,600
Lot C	21,325,928	Coloma Community Center	14,011,268
Florin Reservoir	20,118,000	Cesar E. Chavez Park	13,531,350
Meadowview Corp Yard	15,606,083	Garcia Bend Park	9,743,171
35th Corp Yard	14,645,176	Glenbrook Park	9,738,810
Lot R	11,255,947	Muir Park	9,120,900
Sequoia Pacific (Warehouse)	3,070,558	Curtis Park	7,350,009
Rooney Police Station	3,046,527	Oki Park	7,074,630
Animal Control Shelter	2,827,397	North Laguna Park	7,039,995
Sequoia Pacific (Forensic ID Lab)	2,182,158	Tahoe Park	6,956,880
Sac River Underground Reservoir	2,000,000	Hall Park	5,243,120
Fire Station #16	1,251,576	Northgate Park	4,587,315
Fire Station #10	1,049,832	Orchard Park Site	4,587,315
Fire Station #19	871,373	Washington Park	4,381,760
Fire Station #7	859,421	Cabrillo Park	2,196,910
Fire Station #1	809,120	Lawrence Park	1,830,758
Fire Station #17	808,147	Brockway Park	1,332,560
Fire Station #14	807,545	Stanford Park	1,085,779
Fire Station #15	510,142	Grant Park	1,085,779
Rooney Police Garage	170,837	Shore Park	811,931
Total	$299,415,554	Total	$286,324,921

Total Asset Value Currently Comprising the Leased Property: $585,740,475

Total Principal Amount of the Bonds secured by Base Rental Payments: $__________

The estimated value of the Master Leased Property identified above was previously determined by the City as of the date of inclusion of such property in the Master Lease Property. In order to provide valuations for the structures included on City-owned land included in the land valuation, the City's Risk Manager's Office established a replacement value for each such structure utilizing the "Marshall Swift" valuation methodology employed by the City for the purpose of valuing its assets for insurance purposes.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX F

PROPOSED FORM OF CITY CONTINUING DISCLOSURE CERTIFICATE

APPENDIX G

BOOK ENTRY ONLY SYSTEM

General

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be delivered for each series and maturity of the Bonds, in the aggregate principal amount of such series and maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the applicable documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee 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 Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

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

Principal, premium, if any, and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the City and the Underwriters believe to be reliable, but the Authority, the City and the Underwriters take no responsibility for the accuracy thereof.

The Authority and the Trustee cannot and do not give any assurance that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or any prepayment or other notices, to the Beneficial Owner, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the Bonds, payment of principal, premium, if any, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a new Bond or Bonds of the same aggregate principal amount and maturity date and of the same or other authorized denominations; (b) any Bond may be transferred on the registration books maintained by the Trustee under the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any Bond during the period established by the Trustee for the selection of any Bonds for redemption or any Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such Bond selected for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the fifteenth day of the month next preceding such interest payment date; provided, that upon request of a Bondowner of $1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the fifteenth day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds; and (f) all payments of principal, and any premium on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee specified in the Indenture.

APPENDIX H

SPECIMEN BOND INSURANCE POLICY