

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. Bond Counsel is also of the opinion that under existing law the interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

\$14,355,000**ASSOCIATION OF BAY AREA GOVERNMENTS****Lease Revenue Bonds, Series 2001-2****(California Capital Projects)****Participant Cities:****Grass Valley, Hayward, Solana Beach and South Lake Tahoe****Dated: Date of Delivery****Due: December 1, as shown below**

The Bonds	The Bonds are being issued by the Association of Bay Area Governments (the "Authority"). Interest on the Bonds is payable on June 1 and December 1 each year, beginning June 1, 2002. Principal on the Bonds is due on the due dates set forth in the maturity schedule on the inside cover. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof.
Use of Proceeds	The Authority will make the proceeds from the sale of the Bonds available to certain cities participating in this financing (the "Participants") to finance or refinance certain capital improvements or equipment within their respective geographical boundaries, to fund a reserve account, and to pay the cost of issuing the Bonds. See "THE PROJECT AND THE FINANCING PLAN."
Book-Entry Form	The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificates representing their interest in the Bonds. Payment of principal and interest will be remitted by Wells Fargo Bank, National Association, San Francisco, California, as trustee (the "Trustee") to DTC for subsequent disbursement to DTC participants who will remit such payments to beneficial owners of the Bonds. Purchasers of beneficial interests in the Bonds will not receive certificates representing their interests in the Bonds and will not be paid directly by the Trustee. See "APPENDIX G - DTC and the Book-Entry Only System."
Redemption	The Bonds are subject to mandatory redemption from optional prepayment of lease payments, mandatory sinking account redemption and special mandatory redemption from insurance or condemnation proceeds, as described under the caption "THE BONDS - Redemption."
Source of Payment	The Bonds are payable from lease payments (the "Lease Payments") due from the Participants under separate Lease Agreements, each dated as of December 1, 2001, between the Authority, as lessor, and each Participant, as lessee (each a "Lease Agreement"). The Lease Payments have been calculated to be sufficient, in the aggregate, to enable the Authority to pay the principal of and interest and premium, if any, on the Bonds when due and payable. No Participant has an obligation to pay any portion of the Lease Payments of any other Participant. Each Participant has covenanted under its respective Lease Agreement to take such action as may be necessary to include all of its Lease Payments in its annual budgets and to make the necessary annual appropriations to pay its Lease Payments. Neither the Bonds nor the obligation of each Participant to make Lease Payments constitutes an obligation of such Participant for which such Participant is obligated to levy or pledge any form of taxation, or for which such Participant has levied or pledged any form of taxation. See "SECURITY FOR THE BONDS."
Reserve Account	A debt service reserve account for the Bonds will be established with separate subaccounts for each Participant. Amounts on deposit in each subaccount of the Reserve Fund may be used only to supplement insufficient amounts received from its respective Participant, and no subaccount will be available to pay debt service on the Bonds attributable to another Participant. See "SECURITY FOR THE BONDS - Reserve Account" and "No Cross-Collateralization."
Risk Factors	The Lease Payments are subject to abatement under certain circumstances. See "SECURITY FOR THE BONDS - Lease Payments" and "RISK FACTORS" - Abatement."
Bond Insurance	Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "MUNICIPAL BOND INSURANCE POLICY."

Ambac

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY NOR THE MEMBERS OF THE AUTHORITY SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY OR ANY OF ITS MEMBERS, OTHER THAN THE MONIES PLEDGED UNDER THE INDENTURE, TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

MATURITY SCHEDULE**[See inside front cover]**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if delivered to and received by the Underwriters subject to the approval of their validity and the legality of the Lease Agreements by Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel, and for each Participant by its City Attorney. It is anticipated that the Bonds will be available for delivery to DTC in New York, New York on or about January 10, 2002.

SUTRO & Co. INCORPORATED

MATURITY SCHEDULE

\$13,130,000 Serial Bonds

<u>Due</u> <u>Dec. 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Due</u> <u>Dec. 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2002	\$1,215,000	3.000%	1.800%	2011	\$645,000	5.000%	4.500%
2003	1,155,000	4.000	2.400	2012	465,000	5.000	4.600
2004	1,210,000	3.250	2.850	2013	220,000	5.000	4.700
2005	1,260,000	4.000	3.200	2014	225,000	5.000	4.850
2006	1,300,000	4.250	3.470	2015	240,000	4.750	4.900
2007	1,310,000	5.000	3.750	2016	255,000	4.750	4.950
2008	1,210,000	4.000	4.000	2017	265,000	4.875	5.000
2009	780,000	4.000	4.100	2018	275,000	5.000	5.100
2010	805,000	4.250	4.350	2019	295,000	5.000	5.150

\$1,225,000 5.00% Term Bonds Due December 1, 2025 --Yield 5.25%

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority and the Participants, in any press release and in any oral statement made with the approval of an authorized officer of the Authority, the Participants or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority, the Participants or any other entity described or referenced herein since the date hereof.

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

Document Summaries. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which 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 Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

No Registration. The bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in that Act. The Bonds have not been registered or qualified under the securities laws of any state.

Information About the Authority. The information relating to the Authority contained herein under the heading "THE AUTHORITY" and "ABSENCE OF LITIGATION – The Authority" has been furnished by the Authority. All other information contained herein has been obtained from the Participants and other sources (other than Authority) that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness by and is not to be relied upon or construed as a promise or representation by the Authority.

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OFFICIAL STATEMENT

\$14,355,000

ASSOCIATION OF BAY AREA GOVERNMENTS Lease Revenue Bonds, Series 2001-2 (California Capital Projects)

Participant Cities:

Grass Valley, Hayward, Solana Beach, South Lake Tahoe

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Official Statement and not defined herein have the meanings ascribed to them in the Indenture. The definition of certain terms are set forth in APPENDIX B.

The purpose of this Official Statement is to provide certain information concerning the issuance by the Association of Bay Area Governments (the "Authority") of its Lease Revenue Bonds, Series 2001-2 (the "Bonds").

The Authority. The Authority is a joint exercise of powers authority organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated January 24, 1961, by and among 54 cities and five counties, and under the provisions of Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act (the "Bond Law") to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the Participants (as defined below), and to provide financing for public capital improvements of public entities, including the Participants. See "THE AUTHORITY."

Authority for Issuance. The Bonds are being issued pursuant to the Bond Law and an Indenture of Trust, dated as of December 1, 2001 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association San Francisco, California, as trustee (the "Trustee").

Purpose of the Bonds. The Authority will make the proceeds from the sale of the Bonds available to the City of Grass Valley, the City of Hayward, the City of Solana Beach and the City of South Lake Tahoe (collectively, the "Participants"). The Participants will use the proceeds of the Bonds for the following purposes: (i) to finance or refinance certain capital improvements within the geographic boundaries of the Participants (collectively, the "Project"), (ii) to fund a reserve account for the Bonds, and (iii) to pay the costs of issuing the Bonds.

See "THE PROJECT AND THE FINANCING PLAN," "ESTIMATED SOURCES AND USES OF FUNDS" and "APPENDIX A - Information Concerning the Participants."

Security for the Bonds. The Bonds are special obligations of the Authority payable from revenues pledged under the Indenture, consisting primarily of Lease Payments (as defined below), and from certain funds held under the Indenture. In order to provide for the repayment

of the Bonds, each Participant has agreed to lease certain real property and improvements (collectively, the "Leased Premises") to the Authority pursuant to separate Site and Facility Leases, each dated as of December 1, 2001, and to lease back the respective Leased Premises from the Authority pursuant to separate Lease Agreements, each dated as of December 1, 2001, between the Authority, as lessor, and each Participant, as lessee (the "Lease Agreements"). Under each Lease Agreement, the respective Participant has agreed to pay installments of rent (the "Lease Payments") for its Leased Premises to the Authority. The aggregate Lease Payments due under all of the Lease Agreements have been calculated to be sufficient, in the aggregate, in both time and amount, to enable the Authority to pay the principal of and interest and premium, if any, on the Bonds when due and payable. See "SECURITY FOR THE BONDS" and "APPENDIX B - Summary of Principal Legal Documents - Lease Agreements."

Under the Lease Agreements, each Participant has covenanted that it will take such action as may be necessary to include all its Lease Payments in its budgets and to make the necessary annual appropriations to pay its Lease Payments. **No Participant has any obligation to pay the Lease Payments of any other Participant.** See "SECURITY FOR THE BONDS - Participant Covenant to Budget and Appropriate" and "APPENDIX B - Summary of Principal Legal Documents - Lease Agreements." The Lease Payments to be made by each Participant are subject to abatement during any period in which the respective Leased Premises are not available to such Participant for use and occupancy due to damage or destruction. See "SECURITY FOR THE BONDS - Abatement," "RISK FACTORS - Abatement" and "APPENDIX B - Summary of Principal Legal Documents - Lease Agreements."

Reserve Account. A debt service reserve account for the Bonds will be established with separate subaccounts for each Participant. Amounts on deposit in each subaccount of the Reserve Fund may be used only to supplement insufficient amounts received from its respective Participant, and no subaccount will cross-collateralize obligations to pay debt service on the Bonds attributable to another Participant. See "SECURITY FOR THE BONDS - Reserve Account" and "- No Cross-Collateralization."

Limited Obligation. The Bonds are special obligations of the Authority payable solely from revenues pledged under the Indenture, consisting primarily of Lease Payments, and from certain funds held under the Indenture. Neither the Bonds nor the obligation of each Participant to make its respective Lease Payments constitutes an obligation of such Participant for which such Participant is obligated to levy or pledge any form of taxation, or for which such Participant has levied or pledged any form of taxation.

The Authority is not directly or indirectly or contingently or morally obligated to use any moneys, other than the revenues pledged under the Indenture, of the Authority or any of its members to pay all or any portion of debt service on the Bonds. The obligation to pay principal of and interest on the Bonds do not constitute an indebtedness or an obligation of the Authority, the State of California or any political subdivision thereof, within the meaning of any Constitutional or statutory debt limitation, or a charge against the general or taxing powers of any of them, but shall be payable solely from the revenues described herein. The Authority has no taxing power.

Bond Insurance. Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Bonds. See "MUNICIPAL BOND INSURANCE POLICY" and "APPENDIX D - Specimen Municipal Bond Insurance Policy."

Participant Information. For certain information concerning the Participants and the Leased Premises, including certain financial information regarding the Participants, see "THE

PARTICIPANTS AND THE LEASED PREMISES" and APPENDIX A - "Information Concerning the Participants."

Definitions and Descriptions. Brief descriptions of the Bonds, the Authority, the Participants and the Leased Premises are included in this Official Statement, together with summaries of the Indenture, the Site Leases and the Lease Agreements. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Bonds, the Indenture, the Site Leases and the Lease Agreements are qualified in their entirety by reference to the actual documents or, with respect to the Bonds, to the form of Bond included in the Indenture. Copies of all such documents are available for inspection at the corporate trust office of the Trustee in San Francisco, California.

Definitions of certain capitalized terms used in this Official Statement and not otherwise defined herein or in APPENDIX B have the meanings set forth in the Indenture and the Lease Agreements. The summaries of and references contained in this Official Statement to the Indenture, the Site Leases and the Lease Agreements, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

THE AUTHORITY

The Authority is a joint exercise of powers authority organized and operating pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and pursuant to an agreement which became effective January 24, 1961, by and among various cities and counties in the State. The Authority is operated by its members and was established to protect local control, plan for the future and promote cooperation on issues in the San Francisco Area. The Authority has been designated by the State of California and federal governments as the official comprehensive planning agency for the San Francisco Bay Area. The Authority's enabling legislation provides it with the power to issue the Bonds.

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THE PROJECT AND THE FINANCING PLAN

The Authority will make the proceeds from the sale of the Bonds available to the Participants for the Project, which is anticipated to consist of the financing or refinancing of certain capital improvements or equipment used by the Participants, as described below. A description of each Participant is set forth in "APPENDIX A - Information Concerning the Participants."

Grass Valley. A portion of the proceeds will be deposited in the Project Fund and made available to Grass Valley to prepay a capital lease used to acquire certain capital facilities for Grass Valley. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF GRASS VALLEY."

A portion of proceeds of the Bonds, together with other moneys available from the bonds to be refunded, will be used to establish an irrevocable escrow fund (the "Grass Valley Escrow Fund") to be held for Grass Valley by a financial institution (the "Grass Valley Escrow Bank") under an escrow agreement for Grass Valley dated as of the Closing Date (the "Grass Valley Escrow Agreement"). Moneys in the Grass Valley Escrow Fund will be invested pursuant to the Grass Valley Escrow Agreement in appropriate escrow securities and applied to the defeasance of an outstanding debt issue by the Redevelopment Agency of the City of Grass Valley with a outstanding principal amount of \$1,310,000 as of December 1, 2001 (the "Grass Valley Prior Obligation"). Grass Valley anticipates that proceeds of the Bonds deposited with the Grass Valley Escrow Bank, together with interest earnings thereon, will be sufficient to fully refund the Grass Valley Prior Obligation. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF GRASS VALLEY." *The escrow securities and other moneys held by the Grass Valley Escrow Bank are pledged to the payment of the Grass Valley Prior Obligation to be refunded with proceeds of the Bonds. Neither the principal of the escrow securities deposited with the Grass Valley Escrow Bank nor the interest thereon will be available for the payment of the Bonds.*

Hayward. A portion of the proceeds will be deposited in the Project Fund and made available to Hayward to acquire certain municipal vehicles and equipment and to provide for the payment of capital leases used to acquire and retrofit certain capital facilities and equipment. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF HAYWARD."

A portion of proceeds of the Bonds, together with other moneys available from the bonds to be refunded, will be used to establish an irrevocable escrow fund (the "Hayward Escrow Fund") to be held for Hayward by a financial institution (the "Hayward Escrow Bank") under an escrow agreement for Hayward dated as of the Closing Date (the "Hayward Escrow Agreement"). Moneys in the Hayward Escrow Fund will be invested pursuant to the Hayward Escrow Agreement in appropriate escrow securities and applied to the prepayment in full of Hayward's share of two outstanding debt issues by ABAG Finance Corporation with a combined outstanding principal amount of \$2,740,000 as of December 1, 2001 (the "Hayward Prior Obligations"). Hayward anticipates that proceeds of the Bonds deposited with the Hayward Escrow Bank, together with interest earnings thereon, will be sufficient to fully refund the Hayward Prior Obligations. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF HAYWARD." *The escrow securities and other moneys held by the Hayward Escrow Bank are pledged to the payment of the Hayward Prior Obligations to be refunded with proceeds of the Bonds. Neither the principal of the escrow securities deposited with the Hayward Escrow Bank nor the interest thereon will be available for the payment of the Bonds.*

Solana Beach. A portion of proceeds of the Bonds, together with other moneys available from the bonds to be refunded, will be used to establish an irrevocable escrow fund (the "Solana Beach Escrow Fund") to be held for Solana Beach by a financial institution (the "Solana Beach Escrow Bank") under an escrow agreement for Solana Beach dated as of the Closing Date (the "Solana Beach Escrow Agreement"). Moneys in the Solana Beach Escrow Fund will be invested pursuant to the Solana Beach Escrow Agreement in appropriate escrow securities and applied to the prepayment in full of two outstanding debt issues of the Solana Beach Public Facilities Corporation with a combined outstanding principal amount of \$3,310,000 as of December 1, 2001 (the "Solana Beach Prior Obligations"). Solana Beach anticipates that proceeds of the Bonds deposited with the Solana Beach Escrow Bank, together with interest earnings thereon, will be sufficient to fully refund the Solana Beach Prior Obligations. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF SOLANA BEACH." *The escrow securities and other moneys held by the Solana Beach Escrow Bank are pledged to the payment of the Solana Beach Prior Obligations to be refunded with proceeds of the Bonds. Neither the principal of the escrow securities deposited with the Solana Beach Escrow Bank nor the interest thereon will be available for the payment of the Bonds.*

South Lake Tahoe. A portion of the proceeds will be deposited in the Project Fund and made available to South Lake Tahoe to finance the acquisition of certain capital facilities for South Lake Tahoe and to prepay a capital lease. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF SOUTH LAKE TAHOE."

A portion of proceeds of the Bonds, together with other moneys available from the bonds to be refunded, will be used to establish an irrevocable escrow fund (the "South Lake Tahoe Escrow Fund") to be held for South Lake Tahoe by a financial institution (the "South Lake Tahoe Escrow Bank") under an escrow agreement for South Lake Tahoe dated as of the Closing Date (the "South Lake Tahoe Escrow Agreement"). Moneys in the South Lake Tahoe Escrow Fund will be invested pursuant to the South Lake Tahoe Escrow Agreement in appropriate escrow securities and applied to the prepayment of South Lake Tahoe's share of an outstanding debt issue of ABAG with an outstanding principal amount of \$440,000 as of December 1, 2001 (the "South Lake Tahoe Prior Obligations"). South Lake Tahoe anticipates that proceeds of the Bonds deposited with the South Lake Tahoe Escrow Bank, together with interest earnings thereon, will be sufficient to fully refund the South Lake Tahoe Prior Obligations. See "ESTIMATED SOURCES AND USES OF FUNDS" below and "APPENDIX A - CITY OF SOUTH LAKE TAHOE." *The escrow securities and other moneys held by the South Lake Tahoe Escrow Bank are pledged to the payment of the South Lake Tahoe Prior Obligations to be refunded with proceeds of the Bonds. Neither the principal of the escrow securities deposited with the South Lake Tahoe Escrow Bank nor the interest thereon will be available for the payment of the Bonds.*

Verification. Grant Thornton LLP, Minneapolis, Minnesota, will provide a verification report with respect to the sufficiency of the amounts deposited in each Escrow Fund for the prepayment of the outstanding debt obligations to be refunded.

ESTIMATED SOURCES AND USES OF FUNDS

The anticipated sources and uses of funds with respect to the Bonds and moneys available from the refundings are set forth below.

<u>Sources</u>	
Par amount of Bonds	\$14,355,000.00
Net Original Issue Premium	204,387.20
Moneys Available From Refundings	<u>1,271,326.15</u>
TOTAL	15,830,713.35
<u>Uses</u>	
Costs of Issuance Fund [1]	496,619.86
Reserve Account [2]	
Grass Valley Subaccount	142,412.68
Hayward Subaccount	530,940.04
Solana Beach Subaccount	246,114.68
South Lake Tahoe Subaccount	<u>100,150.56</u>
Subtotal: Reserve Account	1,019,617.96
Project Fund [3]	
Hayward Subaccount	1,827,775.44
South Lake Tahoe Subaccount	<u>625,000.00</u>
Subtotal: Project Fund	2,452,775.44
Escrow Fund [4]	
Grass Valley Subaccount	1,980,259.09
Hayward Subaccount	5,602,301.30
Solana Beach Subaccount	3,504,499.21
South Lake Tahoe Subaccount	<u>758,730.36</u>
Subtotal: Escrow Fund	11,845,789.96
Additional Proceeds (Unallocated)	<u>15,910.13</u>
TOTAL	\$15,830,713.35

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- [1] Represents expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including compensation, fees and expenses (including fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee (including fees and expenses for legal counsel), title insurance premiums, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.
- [2] Equal to the Reserve Requirement for the Bonds. Deposits into each subaccount represent the share of the Reserve Requirement allocated to each Participant. Amounts in each subaccount may be used only to supplement insufficient amounts received from its respective Participant. See "SECURITY FOR THE BONDS - Reserve Account."
- [3] Represents funds to be used by Grass Valley, Hayward and South Lake Tahoe to finance the acquisition of certain capital equipment and facilities, and the prepayment of certain capital leases. See "THE PROJECT AND THE FINANCING PLAN" above.
- [4] Represents funds to be transferred by the Trustee to the Escrow Bank for deposit in the Escrow Funds established under the Indenture to advance refund certain outstanding obligations of the Participants. See "THE PROJECT AND THE FINANCING PLAN" above.

THE BONDS

Authority for Issuance

The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act (the "Bond Law") to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the Participants, and to provide financing for public capital improvements of public entities, including the Participants. The Bonds are being issued pursuant to the Bond Law, an Indenture of Trust, dated as of December 1, 2001 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association San Francisco, California, as trustee (the "Trustee"), and a series of resolutions of the governing body of the Authority.

Bond Terms

Interest on the Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2002 (each, an "Interest Payment Date"), calculated based on a 360-day year comprised of 12 thirty-day months, to the person whose name appears on the registration books maintained by the Trustee as the registered owner thereof as of the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a business day (each, a "Record Date").

Interest on the Bonds will be paid by check of the Trustee mailed by first class mail to the registered owners at the respective addresses of such owners as they appear on the registration books of the Trustee as of the applicable Record Date; provided, however, that payment of interest may be made by wire transfer in immediately available funds to an account in the United States of America to any registered owner of Bonds in the aggregate principal amount of \$1,000,000 or more who furnishes written wire instructions to the Trustee at least 5 days before the applicable Record Date.

The Bonds will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (ii) it is authenticated on or before May 15, 2002, in which event it will bear interest from its date of issuance; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Principal of any Bond and any premium upon redemption will be paid by check of the Trustee upon presentation and surrender thereof at the corporate trust office of the Trustee in San Francisco, California.

The Bonds will be issued in fully registered form, without coupons, registered in the name of The Depository Trust Company, New York, New York ("DTC") or its nominee. DTC will act as securities depository for the Bonds. So long as the Bonds are held in the book-entry system of DTC, all payments of principal, interest and premium, if any, will be made by the Trustee to DTC as the registered owner of the Bonds. See "APPENDIX G - DTC and The Book-Entry Only System."

Purchases of beneficial interest in the Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof; provided, however, that one Bond may have a denomination of less than \$5,000.

Redemption

Mandatory Redemption from Optional Prepayment of Lease Payments. The Bonds maturing on or after December 1, 2012 are subject to mandatory redemption as a whole or in part upon notice to the Trustee by a Participant of its intention to optionally prepay its Lease Payments, on any date on or after December 1, 2011, from any available source of funds of the Participant so electing to prepay, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
December 1, 2011 through November 30, 2012	101.00%
December 1, 2012 through November 30, 2013	100.50%
December 1, 2013 and thereafter	100.00%

Any such redemption will be in the order of maturity designated by the Participant electing to prepay its Lease Payments (and, if no specific order of redemption is designated by such Participant, in inverse order of maturity); provided, however, that only Bonds in which such Participant has an interest (see the percentage table under the caption "SECURITY FOR THE BONDS") may be redeemed by such Participant's election.

Sinking Account Redemption.

The Bonds maturing on December 1, 2025 (the "Term Bonds") are subject to mandatory sinking fund redemption in part by lot on December 1, 2020, and on December 1 in each year thereafter to and including December 1, 2025, from Sinking Account payments made by the Authority derived from scheduled Lease Payments made by the Participants. The redemption price will equal the principal amount of the Bonds to be redeemed, together with accrued interest to the redemption date, without premium, in the principal amounts and on the dates set forth in the following table. If some but not all of the Term Bonds have been redeemed due to optional prepayment of lease payments, as described above, the total amount of all future Sinking Account payments will be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among the Sinking Account payments as are thereafter payable on a pro rata basis in integral multiples of \$5,000 as determined by the Authority.

<u>Sinking Account Redemption Date (Dec. 1)</u>	<u>Principal Amount to be Redeemed or Purchased</u>
2020	\$300,000
2021	235,000
2022	240,000
2023	255,000
2024	95,000
2025 (maturity)	100,000

In lieu of sinking fund redemption of the Term Bonds, amounts on deposit as Sinking Account payments may also be used and withdrawn by the Trustee at any time for the purchase of Term Bonds otherwise required to be redeemed on the following December 1 at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of the Term Bonds so purchased by the Authority and surrendered to the Trustee for cancellation in any 12-month period ending on June 1 in any year will be credited toward and will reduce the par amount of the Term Bonds otherwise required to be redeemed from sinking fund payments on the following December 1 under the Indenture.

Special Mandatory Redemption from Insurance or Condemnation Proceeds. The Bonds are subject to redemption as a whole, or in part on a *pro rata* basis among maturities, on any date, to the extent the Trustee has received title or hazard insurance proceeds or condemnation proceeds not used to repair or replace any portion of the Leased Premises of a Participant damaged or destroyed and elected by such Participant to be used for such purpose as provided in the Indenture, at a redemption price equal to 100% of the principal amount of the Bond to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium.

Notice of Redemption. Notice of redemption must be mailed by first-class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective registered owners of any Bonds designated for redemption at their addresses appearing on the registration books kept by the Trustee, and to the Securities Depositories and Information Services in accordance with the terms of the Indenture.

Any notice of redemption may be mailed prior to the date the Trustee has the funds necessary to effect such redemption, and the notice may provide that the redemption of the Bonds is conditioned upon receipt by the Trustee, on or before the redemption date, of funds sufficient to pay the redemption price of the Bonds.

Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a particular maturity, the Trustee will select the Bonds to be redeemed from all Bonds of such maturity or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, the Trustee will treat each Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

Purchase of Bonds in Lieu of Redemption. In lieu of redemption of Bonds as described above, amounts held by the Trustee for such redemption may also be used on any Interest Payment Date, upon receipt by the Trustee at least 75 days prior to the next scheduled Interest Payment Date of a written request of the Authority, for the purchase of Bonds at public or private sale as and when and at such prices (including brokerage fees, accrued interest and other charges) as the Authority may in its discretion direct, but not to exceed the redemption price which would be payable if such Bonds were redeemed. The aggregate principal amount of Bonds of the same maturity purchased in lieu of redemption as described in this paragraph may not exceed the aggregate principal amount of Bonds of such maturity which would otherwise be subject to such redemption.

Transfer and Exchange of Bonds

Any Bond may, in accordance with its terms, be transferred on the Trustee's registration books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount in authorized denominations and of like maturity. The Trustee may require

the Bond owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Any Bond may be exchanged at the corporate trust office of the Trustee in San Francisco, California, for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond will not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. The Trustee may require the Bond owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

The foregoing provisions relating to the transfer and exchange of Bonds are not applicable to the transfer and exchange of any Beneficial Owner's interests in the Bonds so long as the Bonds are held in the book-entry system. See APPENDIX G - "DTC and the Book-Entry Only System."

SECURITY FOR THE BONDS

Revenues

The Bonds are special obligations of the Authority payable from Revenues pledged under the Indenture, consisting primarily of Lease Payments, and from certain funds held under the Indenture. "Revenues" are defined in the Indenture as all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreements, including (a) all of the Lease Payments (including both timely and delinquent payments and any late charges, regardless of the source of payment), prepayments and insurance proceeds, but excluding any Additional Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

Participants' Shares

The Indenture allocates the original principal amount of the Bonds to each participant in the following amounts and percentages:

<u>Participant</u>	<u>Bond Principal</u>	<u>Percentage Share</u>
Grass Valley	\$ 2,005,000	13.97%
Hayward	7,475,000	52.07%
Solana Beach	3,465,000	24.14%
South Lake Tahoe	<u>1,410,000</u>	<u>9.82%</u>
Total:	\$14,355,000	100.00%

Each Participant's obligation to make Lease Payments secures only its allocated share of the Bonds. See "Lease Payments" below and "RISK FACTORS - No Cross-Collateralization."

Lease Payments

Site Leases and Lease Agreements. In order to provide for the repayment of the Bonds, each Participant has agreed to lease the respective Leased Premises to the Authority pursuant to separate Site and Facility Leases, each dated as of December 1, 2001 between the Authority, as lessee, and each respective Participant, as lessor (the "Site Leases"), and to lease back said Leased Premises from the Authority pursuant to separate Lease Agreements. The Authority has assigned its right under each Lease Agreement to receive Lease Payments and other amounts payable thereunder to the Trustee for the benefit of the owners of the Bonds.

Annual Appropriations. Lease Payments are to be made by the Participants from yearly appropriations which are payable out of any source of legally available funds. The Participants have covenanted under their respective Lease Agreements to make such yearly appropriations. See "Participant Covenant to Budget and Appropriate" below and "APPENDIX B - Summary of Principal Legal Documents - Lease Agreements."

No Cross-Collateralization Among Participants. No Participant has covenanted to pay the Lease Payments of any other Participant or to make up any deficit in the payment to owners of the Bonds which occurs by reason of another Participant's nonpayment. Similarly the Reserve Account is comprised of several component subaccounts, with one such subaccount available for use by each Participant. Amounts in each subaccount may be used only to supplement insufficient amounts received from the respective Participant to which the subaccount relates. For this reason, a default in the payment of its Lease Payments by any single Participant could cause a default in the payments of principal of and interest on the

Bonds if moneys in that Participant's subaccount of the Reserve Account are insufficient to make up the deficit caused by such Participant's nonpayment. See "RISK FACTORS - No Cross-Collateralization."

Abatement. The Lease Payments to be made by each Participant are subject to abatement during any period in which the Leased Premises are not available to such Participant for use and occupancy due to damage or destruction, or eminent domain proceedings. See "Abatement" below.

Neither the full faith and credit nor the taxing power of the Participants or the State is pledged to the payment of the Bonds or the Lease Payments. The Authority has no taxing power.

Reserve Account

Deposits. A portion of the proceeds from the sale of the Bonds will be deposited into the Reserve Account in an amount equal to the Reserve Requirement (as defined below). The Trustee will create a separate subaccount within the Reserve Account for each Participant, and separately account for the amounts in each subaccount. In addition, the Trustee is required to deposit into the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement; provided that only amounts received from a particular Participant may be deposited to its respective subaccount in the Reserve Account. Moneys on deposit in the Reserve Account will be invested in "Permitted Investments," as defined in the Installment Sale Agreement. See "APPENDIX B - Summary of Principal Legal Documents."

Reserve Requirement. The term "Reserve Requirement" means, as of the date of calculation, the aggregate, for each of the then outstanding Lease Agreements, of the lesser of the following (to be applied separately for each Participant with respect to the Lease Payments due under each of the respective Lease Agreements): (a) 10% of the then unpaid principal component of the respective Lease Payments, (b) 125% of the average annual respective Lease Payments due in the then current and each succeeding Bond Year, or (c) the maximum respective Lease Payments due in any Bond Year including the then current and each succeeding Bond Year.

The Indenture allocates the Reserve Requirement to each Participant. Any amounts on deposit for each Participant in the Reserve Account in excess of their respective portion of the Reserve Requirement will be transferred to the Bond Fund.

Use of Reserve Account. Amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of:

(i) paying the principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or the Principal Account are not sufficient for such purpose; *provided that amounts in a particular subaccount in the Reserve Account may be used only to supplement insufficient amounts received from its respective Participant, and*

(ii) making the final payments of principal of and interest on the Bonds on the date on which all Bonds are retired under the Indenture (or provision is made for retiring the Bonds under the Indenture).

If, on any date, moneys on deposit in a subaccount of the Reserve Account allocable to a particular Participant, together with amounts allocable to that Participant then on deposit in

the Bond Fund (based upon amounts deposited therein by such Participant), are sufficient to pay all Outstanding Bonds allocable to that Participant, including all principal thereof, and interest thereon, the Trustee will, at the written direction of the Authority, transfer all amounts then on deposit in that subaccount of the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to redeem Bonds under the provisions of the Indenture requiring mandatory redemption from optional prepayment of lease payments (see "THE BONDS - Redemption"), or applied to the last scheduled lease payment due from that Participant.

No Cross-Collateralization. Amounts on deposit in each subaccount of the Reserve Fund may be used only to supplement insufficient amounts received from the respective Participant to which the subaccount relates, and no subaccount of the Reserve Fund will be available for or cross-collateralize obligations to pay debt service on the Bonds attributable to another Participant. See "RISK FACTORS - No Cross-Collateralization."

Substitution With Surety Bond or Other Guaranty. The Authority may at any time substitute the moneys on deposit in the Reserve Account with a letter of credit, surety bond, bond insurance policy or other form of guaranty from a financial institution, the long-term, unsecured obligations of which are rated in the highest rating category by Moody's or S&P, in an amount equal to the Reserve Requirement.

No Cross-Collateralization of Payment Obligations or Security

No Participant has covenanted to pay the Lease Payments of any other Participant or to make up any deficit in the payment to registered owners of the Bonds which occurs by reason of another Participant's nonpayment. Moreover, moneys in the reserve account are not cross-collateralized to secure debt relating to all of the Participants, because amounts in a particular subaccount in the Reserve Account may be used only to supplement insufficient amounts due from the respective Participant. For this reason, one Participant's default in the payment of its Lease Payments could cause a default in the payments of principal of and interest on all of the Bonds if moneys in that Participant's subaccount of the Reserve Account are insufficient to make up the deficit caused by such nonpayment.

Participant Covenant to Budget and Appropriate

Each Participant has covenanted under its respective Lease Agreement to take such action as may be necessary to include all of its Lease Payments due under the Lease Agreement its annual budgets during the term of the Lease Agreement, and to make the necessary annual appropriations for all such Lease Payments. The covenant contained therein, including the covenant described in the preceding sentence, constitutes ministerial duties of each Participant imposed by law, and it will be the duty of each and every public official of the Participant to take such action and do such things as are required by law in the performance of the official duty of such official to enable such Participant to carry out and perform such covenant.

No Additional Bonds

Pursuant to the Indenture, the Authority has covenanted that it will not issue or incur any additional bonds, notes or other indebtedness payable out of the revenues securing the payment of the Bonds.

Insurance and Condemnation Awards

From Insurance Award The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Premises of a Participant by fire or other casualty will be

paid by that Participant to the Trustee and will be deposited in the Insurance and Condemnation Fund by the Trustee and applied as follows.

Such Participant will certify to the Trustee that the Net Proceeds, together with other available funds, will be sufficient to repair the Leased Premises and that such repairs will be completed before the expiration of any rental interruption insurance provided pursuant to the applicable Lease Agreement. If such Participant fails to determine and notify the Trustee in writing of its determination, within 45 days following the date of such deposit, to replace, repair, restore, modify or improve the affected Leased Premises, then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds allocable to such Participant pursuant to the Indenture. See "THE BONDS - Redemption - Special Mandatory Redemption."

All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund will be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the applicable Leased Premises by the affected Participant. Any balance of the proceeds remaining after such work has been completed as certified by such Participant to the Trustee shall after payment of amounts due the Trustee be paid to such Participant.

From Eminent Domain Award If the Leased Premises or any portion thereof is taken permanently or temporarily under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the resulting Net Proceeds will be deposited in the Insurance and Condemnation Fund and applied as follows.

If such Participant has not given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the affected Leased Premises or such portion thereof, the Trustee will transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds allocable to such Participant pursuant to the Indenture. See "THE BONDS - Redemption - Special Mandatory Redemption."

If such Participant has given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the affected Leased Premises or such portion thereof, the Trustee will pay to such Participant, or to its order, from said proceeds such amounts as such Participant may expend for such repair or rehabilitation.

From Title Insurance Award. The Net Proceeds of any title insurance award will be paid to the Trustee, deposited in the Insurance and Condemnation Fund and transferred by the Trustee to the Redemption Fund to be applied towards the redemption of the Bonds allocable to such Participant pursuant to the Indenture. See "THE BONDS - Redemption - Special Mandatory Redemption."

No assurance can be given that the Net Proceeds of any insurance or condemnation award will be sufficient under all circumstances to repair or replace any damaged or taken portion of the Leased Premises of a Participant, or the entire Leased Premises of a Participant, or to prepay all Lease Payments with respect to any Leased Premises. No representation is made as to the sufficiency of any insurance awards or the adequacy of any self-insurance to pay, when and as due, amounts payable under any Lease Agreement or under the Bonds.

Abatement

Abatement Due to Damage or Destruction. Each Lease Agreement provides for the abatement of the respective Participant's Lease Payments proportionately during any period in which by reason of any damage to or destruction of the respective Leased Premises (other than by condemnation) there is substantial interference with the use and occupancy by the Participant of the Leased Premises or any portion thereof. The amount of abatement will be an amount agreed upon by the Participant and the Authority, upon consultation with the Bond Insurer, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Premises not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction.

In the event of any such damage or destruction, the respective Lease Agreement will continue in full force and effect and the Participant will waive any right to terminate the Lease Agreement by virtue of any such damage and destruction. There will be no abatement of the Lease Payments to the extent that moneys derived from any person as a result of such damage or destruction are available to pay the amount which would otherwise be abated or if there is any money available in the Bond Fund allocable to the Participant or in the subaccount in the Reserve Account allocable to the Participant to pay the amount which would otherwise be abated.

Abatement Due to Eminent Domain. Each Lease Agreement provides that if all of a Participant's Leased Premises is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease with respect to the Leased Premises as of the day possession is so taken. If less than all of the Leased Premises is taken permanently, or if all of the Leased Premises or any part thereof is taken temporarily under the power of eminent domain, (a) the applicable Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there will be a partial abatement of Lease Payments in an amount to be agreed upon by the Participant and the Authority such that the resulting Lease Payments for the Leased Premises represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Premises.

In the event of an abatement of a Participant's Lease Payments, there may be insufficient moneys available to pay the payments on the Bonds. See "RISK FACTORS - Abatement."

Rental Interruption Insurance

Each Lease Agreement requires its respective Participant to procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the respective Leased Premises as a result of any of the hazards covered in the fire and extended coverage insurance required by the Lease Agreement, in an amount at least equal to the maximum respective Lease Payments coming due and payable during any future 24 month period. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Participant, and may be maintained in whole or in part in the form of the participation by the Participant in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained in the form of self-insurance. The proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Bond Fund, and will be credited towards the payment of the respective Lease Payments as they become due and payable.

MUNICIPAL BOND INSURANCE POLICY

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by the Bond Insurer, Ambac Assurance Corporation, simultaneously with the delivery of the Bonds.

The following information has been furnished by the Bond Insurer for use in this Official Statement. No representation is made as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date of this Official Statement. Reference is made to APPENDIX D for a specimen of the Bond Insurer's policy. Capitalized terms used below but not otherwise defined in this Official Statement have the meanings given in the financial guaranty insurance policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "**Financial Guaranty Insurance Policy**") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "**Insurance Trustee**") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity,
2. payment of any redemption, prepayment or acceleration premium,
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,988,000,000 (unaudited) and statutory capital of approximately \$2,963,000,000 (unaudited) as of September 30, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "MUNICIPAL BOND INSURANCE POLICY."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy

statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
2. The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
3. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
4. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
5. The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
7. The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
8. The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
9. The Company's Current Report on Form 8-K dated and filed on October 22, 2001; and
10. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

DEBT SERVICE FOR THE BONDS

The Lease Payments have been calculated to be sufficient, in the aggregate, to enable the Authority to pay the principal of and interest and premium, if any, on the Bonds when due and payable. The following table sets forth the scheduled debt service on the Bonds.

Bond Year (Dec. 1)	Grass Valley		Hayward		Solana Beach		So. Lake Tahoe		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$115,000	\$80,578.80	\$740,000	\$277,325.07	\$190,000	\$137,422.56	\$170,000	\$49,364.90	\$1,759,691.33
2003	105,000	86,918.76	680,000	288,818.76	175,000	148,418.76	195,000	50,262.50	1,729,418.78
2004	115,000	82,718.76	705,000	261,618.76	185,000	141,418.76	205,000	42,462.50	1,738,218.78
2005	115,000	78,981.26	735,000	238,706.26	190,000	135,406.26	220,000	35,800.00	1,748,893.78
2006	120,000	74,381.26	760,000	209,306.26	200,000	127,806.26	220,000	27,000.00	1,738,493.78
2007	130,000	69,281.26	820,000	177,006.26	205,000	119,306.26	155,000	17,650.00	1,693,243.78
2008	120,000	62,781.26	705,000	136,006.26	220,000	109,056.26	165,000	9,900.00	1,527,743.78
2009	50,000	57,981.26	465,000	107,806.26	225,000	100,256.26	40,000	3,300.00	1,049,343.78
2010	50,000	55,981.26	480,000	89,206.26	235,000	91,256.26	<u>40,000</u>	<u>1,700.00</u>	1,043,143.78
2011	50,000	53,856.26	500,000	68,806.26	95,000	81,268.76			848,931.28
2012	55,000	51,356.26	310,000	43,806.26	100,000	76,518.76			636,681.28
2013	55,000	48,606.26	60,000	28,306.26	105,000	71,518.76			368,431.28
2014	55,000	45,856.26	65,000	25,306.26	105,000	66,268.76			362,431.28
2015	60,000	43,106.26	70,000	22,056.26	110,000	61,018.76			366,181.28
2016	65,000	40,256.26	70,000	18,731.26	120,000	55,793.76			369,781.28
2017	65,000	37,168.76	75,000	15,406.26	125,000	50,093.76			367,668.78
2018	70,000	34,000.00	75,000	11,750.00	130,000	44,000.00			364,750.00
2019	75,000	30,500.00	80,000	8,000.00	140,000	37,500.00			371,000.00
2020	80,000	26,750.00	<u>80,000</u>	<u>4,000.00</u>	140,000	30,500.00			361,250.00
2021	85,000	22,750.00			150,000	23,500.00			281,250.00
2022	85,000	18,500.00			155,000	16,000.00			274,500.00
2023	90,000	14,250.00			<u>165,000</u>	<u>8,250.00</u>			277,500.00
2024	95,000	9,750.00							104,750.00
2025	<u>100,000</u>	<u>5,000.00</u>							<u>105,000.00</u>
TOTAL	\$2,005,000	\$1,131,310.20	\$7,475,000	\$2,031,968.97	\$3,465,000	\$1,732,578.96	\$1,410,000	\$237,439.90	\$19,488,298.03

THE PARTICIPANTS AND THE LEASED PREMISES

General: Leased Premises

The Participants are the following cities:

City of Grass Valley
City of Hayward
City of Solana Beach
City of South Lake Tahoe

In order to provide for the repayment of the Bonds, each Participant has agreed to lease its Leased Premises to the Authority pursuant to its Site Lease, and to lease back its Leased Premises from the Authority pursuant to its Lease Agreement. For a more detailed description of each Participant and its respective Leased Premises, see "APPENDIX A - Information Concerning the Participants."

General Funds; Economic and Statistical Data

Set forth in APPENDIX A are summaries of certain financial statements for the General Fund of each Participant. Each Participant's General Fund is a budget unit specifically defined under California law which serves as the main financing instrument for general governmental activities in California cities, towns, counties and school districts. Also set forth in APPENDIX A is certain economic and statistical information pertaining to each Participant.

Assessed Valuation and Tax Collections

Taxes are levied for each fiscal year on taxable real and personal property situated in the Participant city as of the preceding January 1 (the "lien date"), at the completion of new construction or when a change in ownership occurs. For assessment and collection purposes, property is classified either as "secured," "unsecured" or "supplemental" and is listed accordingly on separate parts of the assessment roll.

The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property the taxes on which are secured by a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll" except properties classified as "supplemental," which include property on which construction has been completed or for which a change of ownership has occurred during the fiscal year.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus the redemption penalty set forth in the California Revenue and Taxation Code. If taxes are unpaid for a period of 5 years or more, the property is deeded to the state and then is subject to auction sale by the county tax collector.

Property taxes on the unsecured roll are due as of January 1 and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes, and an additional penalty of 1.5% per month begins to accrue November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the

taxpayer, (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (3) filing of a certificate of delinquency for recordation in the county recorder's office, in order to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the assessee.

Property taxes on the supplemental roll are due in accordance with the provisions for payment set forth in the California Revenue and Taxation Code. State law provides exemptions from ad valorem property taxation for certain classes of property including, but not limited to, churches, colleges, non-profit hospitals and charitable institutions.

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on the base year valuations which are frozen at the time a redevelopment project area is created. The tax revenues which result from increases in assessed valuations flow to the redevelopment areas. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated, and may only be spent on projects which qualify under California Community Redevelopment Law.

Summaries of assessed valuations, secured tax charges and delinquencies for each Participant are included in APPENDIX A.

The Teeter Plan

Sections 4701 through 4717 of the California Revenue and Taxation Code permit counties to use a method of apportioning taxes (commonly referred to as the "Teeter Plan") whereby all local agencies receive from such counties 100% of their respective share of the amount of secured ad valorem taxes levied, without regard to actual collections of the taxes levied. Once instituted by a given county, the Teeter Plan will remain in effect unless and until the county Board of Supervisors in its discretion orders its discontinuance. As long as the Teeter Plan continues in a given county, the Participants that receive their respective shares of property tax in accordance with the Teeter Plan are, in effect, assured the full amount of their respective share of the amount of secured ad valorem property taxes levied. *However, no assurance can be given that all payments will be made under the Teeter Plan for a given county in accordance with the California Revenue and Taxation Code.*

The following Participants are included in the Teeter Plan for their respective county: Grass Valley (Nevada County), Solana Beach (San Diego County) and South Lake Tahoe (Eldorado County).

The county Auditor-Controller makes a preliminary calculation of secured tax revenues in early August each year. The Participants participating in the Teeter Plan are allocated 100% of their respective secured taxes based on this calculation. These Participants are held harmless from tax delinquencies as a result of the 100% payment and, conversely, receive no adjustments for redemption payments. The unsecured taxes are allocated based on actual collections of unsecured taxes. A one-time adjustment for changes in the tax roll is made in the following year.

The cash position of each county participating in the Teeter Plan is protected by a special fund, sometimes known as the Tax Losses Reserve Fund, which is generated from the collection of penalties, interest and other charges on county-wide delinquent taxes and special assessments, as well as other cash reserves. If proceeds from the sale of tax deeded property are insufficient to pay the full amount of delinquent taxes, the county Treasurer may draw on

its Tax Losses Reserve Fund to make up the deficiency. Section 4703 of the California Revenue and Taxation Code allows any county to draw down the Tax Losses Reserve Fund to a balance equal to 3% of the total of all taxes and assessments levied on its secured roll for that year if the secured tax delinquency has been 3% of the total or less for the preceding three consecutive years. After utilizing this procedure, if the county incurs a rate of secured tax delinquency that excess 3% of the total of all taxes and assessments levied on its secured roll, the Tax Losses Reserve Fund must accumulate to a balance equal to 5% of the total of all taxes and assessments levied on the secured roll for that fiscal year and remain at that level until the county experiences three consecutive years in which the secured tax delinquency rate is under 3%.

Sales Tax Revenues

Sales tax revenues constitute a significant source of revenues for each of the Participants. Sales taxes are collected from each business engaged in retail sales in California (except for exempt items) and distributed by the State Board of Equalization (the "SBE") to the jurisdiction where the sale took place. Estimated advance payments are made monthly for the three months of each quarter followed by clean-up payments which adjust for actual collections. Each quarter's estimate is based upon the previous year's sales tax collections, as well as general economic trends determined by the SBE. Increases in sales taxes based upon new development are not fully reflected in quarterly estimates until a full calendar year after the opening of the new development for retail business. Sales taxes collected from merchants with no permanent place of business (i.e., certain vendors, construction contractors, etc.) are accumulated to a County-wide or State-wide (for out-of-state businesses) pool and distributed to cities and counties in proportion to their collections from sales tax payers.

With limited exceptions, the sales taxes imposed upon business transactions in California cities are subject to the sales tax levied statewide by the State. The State rate portion of the sales tax decreased to 7.0%, effective January 1, 2001. This decrease of 0.25% is due to a provision in the law which requires this reduction when the State budget surplus exceeds four percent of the State general fund for two consecutive years. The California Legislature could change the transactions and items upon which the State-wide tax and the sales and use tax are imposed. Any such change or amendment could have an adverse effect on sales tax revenues in each of the Participants. The Participants are not aware of any proposed legislative change which could have an adverse effect on sales tax revenues.

In addition to the State rate of 7.0%, certain special taxing jurisdictions impose additional tax rates. The current tax rates for each of the Participants are set forth in APPENDIX A.

APPENDIX A includes a summary of prior taxable sales transactions for the Participants. The value and volume of taxable transactions are dependent on a variety of market and economic factors. Some of these factors include the level of inflation affecting the price of goods and services, the rate of population growth in the general market area, the characteristics of the specific retail developments within a given city, the market service areas of the respective developments, mobility and disposable incomes of the consumers within the market areas, any planned and proposed retail developments existing and planned competitive retail establishments outside of a city.

Other Tax Revenues

In general, cities may adopt measures imposing taxes on certain local activities, such as hotel occupancy and utility consumption taxes. See "RISK FACTORS - Constitutional and Statutory Limitations on Taxation and Appropriations" for a discussion of certain limitations imposed upon the imposition of such taxes.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Bonds. However, the factors described below are not an exhaustive listing of the risks that may be relevant to an investment decision. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

Lease Payments Not Authority Debt

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. THE AUTHORITY SHALL NOT BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY MONEYS OR ASSETS OF THE AUTHORITY OR ANY OF ITS MEMBERS, OTHER THAN THE MONIES PLEDGED UNDER THE INDENTURE, TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION, PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

No Full Faith and Credit

The Bonds are payable solely from the revenues pledged under the Indenture, which consist primarily of the Lease Payments to be made by the Participants under their respective Lease Agreement, together with certain moneys on deposit in the funds and accounts held by the Trustee under the Indenture. The Participants have not pledged their full faith and credit to the payment of Lease Payments, and the obligations of the Participants to make Lease Payments do not constitute obligations of the Participants for which the Participants are obligated to levy or pledge any form of taxation or for which the Participants have levied or pledged any form of taxation. Moreover, the obligation of each Participant to make Lease Payments does not constitute a debt or indebtedness of such Participant, the State, or any political subdivision thereof, within the meaning of any constitutional or statutory debt limitation or restriction.

Each Participant has covenanted in its Lease Agreement that, for so long as the applicable Leased Premises are available for its use, it will make the necessary annual appropriations within its budget for its Lease Payments. However, the obligation to pay Lease Payments under each Participant's Lease Agreement is a general unsecured obligation of such

Participant. Such Participant has the capability to enter into other obligations that may constitute additional charges against its general revenues and thereby adversely affect the availability of funds to make Lease Payments.

Financial Condition of Participants

Many of the Participants are heavily dependent on intergovernmental revenues from the State and the federal government, which sources of revenue may themselves be dependent on the transferring government's budgetary and financial condition. In addition, property and other forms of taxation comprising an additional significant source of revenue for many Participants are subject to statutory and constitutional limitations that may impede their growth and availability for Participant expenditures.

In particular, if any Participant were to exceed or to approach exceeding its appropriations limit described in Article XIII B of the California Constitution, such Participant could choose to fund other expenditures to the exclusion of the Lease Payments. See "Constitutional and Statutory Limitations on Taxation and Appropriations" below for a discussion of certain California constitutional and statutory provisions imposing limitations on the taxing and appropriation powers of California political subdivisions.

See "THE PARTICIPANTS AND THE LEASED PREMISES" and "APPENDIX A - Information Concerning the Participants" for certain general, financial and economic information relating to the Participants.

Availability and Cost of Energy

California is currently experiencing adverse conditions with regard to the cost of electricity and natural gas throughout most of the State. The situation has resulted in the filing of bankruptcy by Pacific Gas & Electric, the primary power supplier for northern California, financial difficulty for Southern California Edison, a major power supplier for southern California, and increased electricity billings for most users of electricity in California. The State has purchased electricity using available moneys and the financial position of the State has been adversely affected by the electricity expenditures. The short and long-range impact of these developments are unknown, but the cost and availability of electricity has the potential to significantly affect economic development throughout the State. Foreseeable impacts on the Participants could include reductions in State funding to municipalities as a result of expenditures by the State for supplies of electricity, non-payment of property taxes on property within a Participant owned by Pacific Gas & Electric, Southern California Edison or other electricity providers, and increased cost of electrical power for the operations of a Participant.

No Cross-Collateralization

No Participant has covenanted to pay the Lease Payments of any other Participant or to make up any deficit in the payment to registered owners of the Bonds which occurs by reason of another Participant's nonpayment. Moreover, moneys in the reserve account are not cross-collateralized to secure debt relating to all of the Participants, because amounts in a particular subaccount in the Reserve Account may be used only to supplement insufficient amounts received from its respective Participant. For this reason, one Participant's default in the payment of its Lease Payments could cause a default in the payments of principal of and interest on the Bonds if moneys in that Participant's subaccount of the Reserve Account are insufficient to make up the deficit caused by such nonpayment. See "SECURITY FOR THE BONDS - Lease Payments."

Abatement

The Lease Payments under each Lease Agreement will be abated during any period in which, by reason of damage or destruction (other than by eminent domain, as discussed below), there is substantial interference with the applicable Participant's use and occupancy of all or any portion of its Leased Premises. The amount of such abatement will be agreed upon by the Participant and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Premises. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the applicable Lease Agreement will continue in full force and effect and each Participant has waived any right to terminate the Lease Agreement by virtue of any such damage or destruction.

Pursuant to each Lease Agreement, if all of the applicable Leased Premises is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease with respect to such Leased Premises as of the day possession is taken by the governmental entity. If less than all of the Leased Premises is taken permanently, or if all of the Leased Premises or any part thereof is taken temporarily under the power of eminent domain, (i) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (ii) there will be a partial abatement of Lease Payments in an amount to be agreed upon by the Participant and the Authority such that the resulting Lease Payments for such Leased Premises represent fair consideration for the use and occupancy of the remaining usable portion of such Leased Premises.

Limited Recourse on Default

Pursuant to each Lease Agreement, the Trustee, as assignee of the Authority thereunder, may exercise any and all remedies available pursuant to law in the event the applicable Participant defaults on its obligations to make its Lease Payments, including the right of entry or re-entry upon the Leased Premises. However, neither the Trustee nor the Authority will have the right, under any circumstances, to (i) accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable, or (ii) to terminate the Lease Agreement, or (iii) to cause the fee interest or the leasehold interest of the Participant in the Leased Premises to be sold, assigned or otherwise alienated.

Moreover, if a court were to conclude that the Leased Premises are essential to basic governmental functions of a Participant or that the applicable Lease Agreement provided the Authority or the Trustee with impermissible control over property of such Participant, it is unlikely that such court would permit the exercise of the remedy of re-entry specified in the applicable Lease Agreement. See "APPENDIX B - Summary of Principal Legal Documents - The Lease Agreements."

Loss of Tax Exemption

Interest on the Bonds could become included in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued and delivered as a result of acts or omissions of the Authority or a Participant in violation of their respective covenants in the Indenture and the Lease Agreements. Should such an event of taxability occur, the Bonds are not subject to a mandatory redemption and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture. See "TAX MATTERS."

Absence of Earthquake and Flood Insurance

The Lease Agreements do not require the Participants to maintain flood insurance on the Leased Premises, and require earthquake insurance only if earthquake insurance is available at reasonable cost from reputable insurers in the judgment of the Participant. See APPENDIX B - "Summary of Principal Legal Documents."

Constitutional and Statutory Limitations on Taxation and Appropriations

Article XIII B. An initiative constitutional amendment entitled Limitations on Government Appropriations was approved by California voters on November 6, 1979. Under the amendment which adds Article XIII B to the California Constitution ("Article XIII B"), state and local government agencies are subject to an annual limitation on certain appropriations. Appropriations subject to limitation consist of "tax revenues," state subventions and certain other funds (together herein referred to as "proceeds of taxes"). Article XIII B does not affect the appropriation of money excluded from the definition of "appropriations subject to limitation" such as debt service on indebtedness existing or authorized before January 1, 1979 or subsequently authorized by the voters and appropriations mandated by any court having proper jurisdiction. Article XIII B also excludes from limitation the appropriation of proceeds from regulatory licenses, user charges or other fees to the extent such proceeds equal "the costs reasonably borne by such entity in providing the regulations, product or service."

In general terms, Article XIII B provides that the appropriations limit will be based on certain 1978-79 expenditures and will be adjusted annually to reflect changes in cost of living, population and transfer of financial responsibility of providing services from one governmental unit to another. Article XIII B also provides that if an agency's revenues in any year exceed the amount which is appropriated by such agency in compliance with the provisions of Article XIII B, the excess must be returned during the next two fiscal years by revising tax rates or fee schedules.

Article XIII D. On November 5, 1996 the California voters approved an initiative measure, Proposition 218, the Right to Vote on Taxes Act, which added Article XIII D to the California Constitution. Article XIII D applies to all assessments, fees and charges and defines "assessment" as any levy or charge upon real property by an agency for a special benefit conferred upon the real property. Section 6 of Article XIII D provides procedural and approval requirements which must be followed by an agency in imposing or increasing any "property related fees and charges." These procedures are similar to those contained in Section 5 of Article XIII D with respect to the levy of assessments, including a noticed public hearing and an election. The terms "fee" and "charge" are defined in Section 2 of Article XIII D as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon any parcel or upon any person as an incident of property ownership, including user fees or charges for a property related service." Section 2 also defines the term "property related service" as "a public service having a direct relationship to property ownership." Section 6 of Article XIII D further provides that (i) revenues derived from a fee or charge shall not exceed the funds required to provide the property related service; (ii) revenues derived from a fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed; and (iii) the amount of the fee or charge upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

Proposition 62. On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires: (i) that any tax for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters voting in an election on the issue, (ii) 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 voting in an election on the issue and (iii) that the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed. Proposition 62 also provided that any tax imposed by any local government after August 1, 1985 and prior to November 5, 1986 (the effective date of Proposition 62) can continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue, and that any local government which fails to seek or obtain such approval shall cease to impose such tax on and after 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 County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) ("*Guardino*"), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Guardino* decision did not address the question of whether or not Proposition 62 should be applied retroactively to taxes imposed during the period that certain of its provisions were held to be unconstitutional.

Following the *Guardino* decision, several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*") holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three-year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection.

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

If a court were to determine that a jurisdiction imposed a new or increased tax in violation of Proposition 62, Proposition 62 specifies that the portion of the one-percent general ad valorem property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax is collected. This provision of Proposition 62 has not been interpreted by the California courts.

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 Propositions 62 with respect to taxes imposed on and after January 1, 1995.

Other Initiatives. Articles XIII B and XIII D, and Proposition 62, were enacted by voter initiative. There can be no assurance that the voters of the State will not approve another initiative that could affect the Authority, the Participants, their respective operations or financial condition, or the Revenues.

TAX MATTERS

In the opinion of Quint & Thimmig LLP, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from the gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for purposes of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Participants comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Participants have each covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

In further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

The form of Bond Counsel's opinion is set forth in APPENDIX C.

RATING

Based upon the Bond Insurer's commitment to deliver its financial guaranty insurance policy for the Bonds, Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies (the "Rating Agency") has assigned its municipal bond rating of "AAA" to the Bonds, conditioned upon the issuance of the Financial Guaranty Insurance Policy by Ambac.

This rating reflects only the view of the Rating Agency, and any desired explanation of the significance of this rating should be obtained from the Rating Agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that this rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the Rating Agency, if in the judgment of the Rating Agency, circumstances so warrant. Any downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Sutro & Co. Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$14,344,062.20 pursuant to a Bond Purchase Agreement, dated December 20, 2001, by and between the Underwriter and the Authority (the "Purchase Contract"). The purchase price of the Bonds is equal to their original

principal amount (\$14,355,000.00) less a net original issue premium of \$204,387.20, and less an Underwriter's discount of \$215,325.00.

The Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at a price lower than the offering price stated on the cover page of this Official Statement. The offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The Authority. The Authority has covenanted in a continuing disclosure certificate (the "Authority Continuing Disclosure Certificate"), for the benefit of the holders and beneficial owners of the Bonds, to provide notices of the occurrence of certain enumerated events, if material.

The Authority will file, or will cause the dissemination agent named in the Authority Continuing Disclosure Certificate to timely file the notices of material events with the Repositories and a State repository, if any. The specific nature of the information to be contained in the notices of material events and certain other terms of the Authority Continuing Disclosure Certificate are summarized in "APPENDIX E - Form of Authority Continuing Disclosure Certificate." These covenants have been made to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

The Participants. Each Participant has covenanted in a continuing disclosure certificate (each a "City Continuing Disclosure Certificate"), for the benefit of the holders and beneficial owners of the Bonds, to provide annually certain financial information and operating data relating to that Participant by not later seven months following the end of the Participant's fiscal year (which currently ends on June 30), or December 31 of each year commencing December 31, 2001, including the audited Financial Statements of the Participant (together, the "Participant Annual Report"), and to provide notices of the occurrence of certain other enumerated events.

Each Participant will file, or will cause the dissemination agent named in the Continuing Disclosure Certificate to file, its Participant Annual Report with each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the "Repositories") and a State repository, if any. The notices of material events will be timely filed by the Participants, or the dissemination agent, with the Repositories and a State repository, if any. The specific nature of the information to be contained in the Participant Annual Report or notices of material events and certain other terms of the City Continuing Disclosure Certificate are summarized in "APPENDIX F - Form of City Continuing Disclosure Certificate."

ABSENCE OF LITIGATION

The Participants. The City Attorney for each Participant will issue opinions in connection with the issuance of the Bonds to the effect that there is no action, suit or proceeding known to the applicable Participant to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Indenture or the Participant's Lease Agreement, or in any way contesting or affecting the validity of the foregoing or any proceeding of the Participants taken with respect to any of the foregoing.

The Authority. There is no pending or, to the best knowledge of the Authority, threatened litigation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceeding of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Authority, or the authority of the Authority to enter into any document relating to the Indenture, the Lease Agreements or the Bonds.

CERTAIN LEGAL MATTERS

Quint & Thimmig LLP, San Francisco, California, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture and as to the validity of the Bonds. The proposed form of this opinion is attached as APPENDIX C.

Certain legal matters will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, Disclosure Counsel, and for each Participant by its city attorney.

EXECUTION

This Official Statement and its distribution have been duly authorized and approved by the Authority and the Participants.

ASSOCIATION OF BAY AREA GOVERNMENTS

/s/ Joseph K. Chan
Finance Director

APPENDIX A

INFORMATION CONCERNING THE PARTICIPANTS

CITY OF GRASS VALLEY

General

The City of Grass Valley ("Grass Valley") is located in the western portion of Nevada County, between Sacramento and Lake Tahoe, approximately 50 miles northeast of the City of Sacramento and 155 miles northeast of the City of San Francisco. Grass Valley encompasses about 3.5 square miles. Grass Valley is a charter city, and was incorporated in 1893; the City Charter was amended in 1996 to establish a council-administrator form of government. The City Council consists of five members elected at large by Grass Valley voters. Council members serve a four year term. Council members appoint the City Administrator who is responsible for the day-to-day administration.

The table below shows population estimates for Grass Valley, Nevada County and the State.

CITY OF GRASS VALLEY
Population Estimates

<u>Year</u>	<u>City of Grass Valley</u>	<u>Nevada County</u>	<u>State of California</u>
1997	9,375	87,700	32,670,000
1998	9,500	89,200	33,226,000
1999	9,925	90,300	33,766,000
2000	10,100	92,300	34,207,000
2001	11,150	94,000	34,818,000

Source: California State Department of Finance.

The Leased Property

Grass Valley and the Authority will determine, prior to the issuance of the Bonds, the exact property that will be subject to the Grass Valley Lease Agreement, provided that the value of such property will be at least equal to the amount of Bonds attributable to Grass Valley. The property subject to the Lease Agreement is anticipated to be as follows:

- The Grass Valley police facility, which is located at 129 South Auburn Street in Grass Valley, and sits on a 0.69 acre parcel near downtown Grass Valley. The building houses the City's police department, including dispatch facilities, communications and computer equipment, holding and interrogation rooms, administrative offices and training/exercise facilities, and contains approximately 9,600 square feet of finished space on the main floor and 2,600 square feet of unfinished space upstairs. The building consists of metal frame construction on a cement slab, and is built to essential service building standards.
- Grass Valley's Memorial Park, which consists of approximately 7.6 acres of land in southeastern Grass Valley and includes a softball diamond, swimming pool, tennis courts,

scout lodge, children's playground, picnic area, restrooms, Video History Museum and World War II, Korea and Vietnam memorials.

The Project to be Financed

Grass Valley's portion of the proceeds of the Bonds will be made available to Grass Valley primarily for the following purposes:

- To prepay in full a capital lease used to finance the Grass Valley police station.
- To pay in full an outstanding bond issue known as "Redevelopment Agency of the City of Grass Valley (Grass Valley Redevelopment Project) 1995 Tax Allocation Bonds," which were issued in July 1995 in the original principal amount of \$1,440,000.

City Finances

The following selected financial information provides a brief overview of Grass Valley's finances. This financial information has been extracted from Grass Valley's audited financial statements and, in some cases, from unaudited information provided by Grass Valley's Finance Department. The most recent audited financial statements of Grass Valley with an unqualified auditor's opinion are available from Grass Valley at the following address: 125 East Main Street, Grass Valley, California 95945; telephone (530) 274-4303. Nicholson & Olsen, Certified Public Accountants, Roseville, California, have audited the financial statements of Grass Valley.

General Fund Financial Summary

The information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from Grass Valley's audited financial statements for fiscal years 1997-98 through 1999-00.

CITY OF GRASS VALLEY
General Fund Balance Sheet
As of June 30 for Fiscal Years 1998 through 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Assets and Other Debits</u>			
Cash and Investments	\$3,482,031	\$ 3,697,649	\$ 3,786,656
Accounts receivables	101,913	135,051	99,982
Accrued interest	231,393	178,977	193,317
Property taxes	482,729	514,997	597,755
Due from other governments	--	1,055	4,584
Due from other funds	--	293,645	
Deposits	13,525	12,854	14,930
Prepaid expenses	150,377	43,557	25,166
Cash with fiscal agents	--	--	<u>225,030</u>
Total assets	<u>\$4,461,968</u>	<u>\$4,877,785</u>	<u>\$4,947,420</u>
 <u>Liabilities, Fund Equity and Other Credits</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 80,329	\$ 141,216	\$ 276,248
Accrued wages payable	160,845	217,811	80,207
Deposits- inspections	54,274	66,172	66,888
Compensated absences- current portion	<u>257,819</u>	<u>244,425</u>	<u>262,553</u>
Total liabilities	553,267	669,624	685,896
 <u>Fund Equity:</u>			
<u>Fund balances:</u>			
Reserved	3,908,701	4,208,160	1,609,787
Unreserved; undesignated	<u>--</u>	<u>--</u>	<u>2,651,737</u>
Total Equity	3,908,701	4,208,160	4,261,524
 Total Liabilities, Fund Equity and Other Credits			
	<u>\$4,461,968</u>	<u>\$4,877,785</u>	<u>\$4,947,420</u>

Source: The City of Grass Valley, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

CITY OF GRASS VALLEY
General Fund
Summary of Revenues and Expenditures
For Fiscal Years 1997-98 through 1999-00

	Audited <u>1997-98</u>	Audited <u>1998-99</u>	Audited <u>1999-00</u>
Revenues:			
Taxes	\$4,005,543	\$4,283,127	\$4,804,714
Intergovernmental	419,752	448,577	542,162
Charges for services	415,682	454,673	500,008
Billings to Enterprise Funds	241,500	241,500	246,000
Interest income	212,356	174,169	225,515
Other	<u>99,808</u>	<u>79,908</u>	<u>69,849</u>
Total Revenues	5,394,641	5,681,954	6,388,248
Expenditures:			
General government	1,091,220	1,156,996	1,325,247
Public safety	2,576,024	2,877,405	2,994,385
Highways and streets	637,120	650,811	737,930
Community development	498,514	651,203	505,015
Parks and recreation	<u>314,756</u>	<u>344,015</u>	<u>341,833</u>
Total Expenditures	5,117,634	5,680,430	5,904,410
Excess (deficiency) of revenues over (under) expenditures	277,007	1,524	483,838
Other Financing Sources (Uses)			
Operating transfers in	110,903	499,240	236,271
Operating transfers out	(133,800)	(201,305)	(2,816,506)
Sale of fixed assets	--	--	425
Proceeds of long-term debt	<u>--</u>	<u>--</u>	<u>2,150,000</u>
Total Other Financing Sources (Uses)	(22,897)	297,935	(429,810)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	254,110	299,459	54,028
Beginning Fund Balance- July 1 (as adjusted)	3,654,591	3,908,701	4,207,496
Ending Fund Balances- June 30	<u>\$3,908,701</u>	<u>\$4,208,160</u>	<u>\$4,261,524</u>

Source: The City of Grass Valley, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

Sales Taxes

The State collects and administers sales taxes, and makes distributions on taxes collected within Grass Valley as follows:

**CITY OF GRASS VALLEY
Sales Tax Rates**

State General Fund	6.00%
Grass Valley	1.00
Nevada County Public Library	
Transactions and Use Tax	<u>0.125</u>
Total	7.125%

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

The following table shows annual taxable retail store sales in Grass Valley in the last five years for which figures are available, as reported by the State Board of Equalization. During calendar year 2000, total taxable sales that were reported in Grass Valley were reported to be \$307,825,000, a 19.3% increase of the total taxable sales of \$257,907,000 that were reported for calendar year 1999.

**CITY OF GRASS VALLEY
Taxable Retail Sales
(in thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Retail Stores	\$168,146	\$171,548	\$180,602	\$208,885	\$259,199
Total All Outlets	201,182	214,098	223,689	257,907	307,825

Source: State of California, Board of Equalization.

Property Taxes

Assessed Valuation. The following table shows historical assessed valuation for Grass Valley.

**CITY OF GRASS VALLEY
Assessed Valuation**

<u>Fiscal Year</u>	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1997-98	\$498,421,623	\$0	\$39,267,175	\$537,688,798
1998-99	518,080,383	0	41,398,902	559,479,285
1999-00	556,335,296	0	46,849,457	603,184,753
2000-01	618,537,030	0	51,503,546	670,040,576
2001-02	665,681,787	0	60,076,213	725,758,000

Source: California Municipal Statistics, Inc.

Property Tax Collections and Delinquencies. The table below sets forth for fiscal years 1996-97 through 2000-01, the property tax levies, actual collections and delinquencies in Nevada County. Figures are not available for Grass Valley.

**NEVADA COUNTY
Secured Tax Levies, Collections and Delinquencies**

<u>Fiscal Year</u>	<u>Secured Tax Charge ⁽¹⁾</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
1996-97	\$71,573,515	\$2,457,117	3.43%
1997-98	73,760,043	2,894,766	3.92
1998-99	77,497,609	2,707,294	3.49
1999-00	80,247,724	2,513,680	3.13
2000-01	85,730,717	1,751,743	2.04

(1) All taxes collected by the County.

Source: California Municipal Statistics, Inc.

Principal Taxpayers. The twenty largest secured taxpayers in Grass Valley are shown below:

**CITY OF GRASS VALLEY
Principal Taxpayers
2001-02 Secured Tax Roll**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2001-02 Assessed Valuation</u>	<u>% of Total (1)</u>
Western & Kienow LP	Commercial Store	\$ 21,416,416	3.22%
GVSC LLC	Commercial Store	12,821,686	1.93
Oregon Investors V LP	Apartments	7,162,192	1.08
Grass Valley LLC	Residential Properties	5,986,717	0.90
Hilltop Estates Investment Co.	Apartments	5,966,461	0.90
Nevada Woods	Apartments	5,765,806	0.87
Ben F. Ivy, Trustee	Mobile home park	5,193,880	0.78
Francis J. and Patricia Lastufka, Trustees	Apartments	4,939,885	0.74
M.K. Blake Estate Co.	Office Building	4,792,840	0.72
Crown Point Partnership	Apartments	4,643,710	0.70
Grass Valley Investment Group	Apartments	4,225,011	0.63
Martin A. Harmon	Rest Home	4,016,468	0.60
Nvision Inc.	Office Building	3,978,000	0.60
Westside Village Investors	Apartments	3,894,065	0.58
Berryhill Associates	Apartments	3,525,103	0.53
Highgate Grass Valley LLC	Rest Home	3,440,548	0.52
Reynold Johnson III, Trustee	Industrial	3,362,110	0.51
Springhill Storage LLC	Industrial	3,247,617	0.49
A. Gordon and Virginia L. Adams, Trustee	Office Building	3,140,386	0.47
Jerry H. Shluker, Trustee	Commercial	<u>3,060,000</u>	<u>0.46</u>
		<u>\$114,578,901</u>	<u>17.21%</u>

(1) Based on 2001-02 Local Secured Assessed Valuation: \$665,681,787

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within Grass Valley are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics, Inc., of Oakland, California.

**CITY OF GRASS VALLEY
Statement of Direct and Overlapping Debt
As of June 30, 2001**

2000-01 Assessed Valuation: \$670,040,576
 Redevelopment Incremental Valuation: 75,663,412
 Adjusted Assessed Valuation: \$594,377,164

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
Nevada Irrigation District	4.982%	\$ 305,646
City of Grass Valley	100.	0
City of Grass Valley 1915 Act Bonds	100.	<u>5,860,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$6,165,646
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Nevada County Certificates of Participation	7.551%	\$1,615,536
Nevada County Superintendent of Schools Certificates of Participation	7.551	27,939
Sierra Joint Community College District Certificates of Participation	1.790	93,080
Nevada Joint Union High School District Authorities	10.377	145,278
Nevada City School District Certificates of Participation	4.627	<u>1,205</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,883,038
 COMBINED TOTAL DEBT		 \$8,048,684 (1)

⁽¹⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2000-01 Assessed Valuation:
 Direct Debt.....0.00%
 Total Overlapping Tax and Assessment Debt.....0.92%
 Combined Total Debt.....1.35%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

Source: California Municipal Statistics, Inc.

CITY OF HAYWARD

General

The City of Hayward ("Hayward") is located in Alameda County, 25 miles southeast of San Francisco, 14 miles south of Oakland and 26 miles north of San Jose. Hayward encompasses about 61 square miles. Hayward was incorporated in 1876 with a council-manager form of government. The Hayward City Council consists of seven members elected at large by Hayward voters. Council members serve a four year term. Council members appoint the City Manager who is responsible for the administration of Hayward.

The table below shows population estimates for Hayward, Alameda County and the State.

CITY OF HAYWARD Population Estimates

<u>Year</u>	<u>City of Hayward</u>	<u>Alameda County</u>	<u>State of California</u>
1997	124,500	1,381,700	32,670,000
1998	126,900	1,413,400	33,226,000
1999	128,200	1,438,500	33,766,000
2000	141,600	1,455,300	34,207,000
2001	144,000	1,479,100	34,818,000

Source: California State Department of Finance.

The Leased Property

Hayward and the Authority will determine, prior to the issuance of the Bonds, the exact property that will be subject to the Hayward Lease Agreement, provided that the value of such property will be at least equal to the amount of Bonds attributable to Hayward. The property subject to the Lease Agreement is anticipated to be as follows:

- Three fire stations, each of which houses a fire engine company and provides structural fire protection and emergency medical response to Hayward. Fire Station No. 2 is located at 360 West Harder Road and consists of approximately 4,660 square feet with masonry construction and a wooden roof. Fire Station No. 5 is located at 28595 Hayward Road and consists of approximately 3,100 square feet with wood frame construction. Fire Station No. 7 is located at 28278 Huntwood Avenue and consists of approximately 6,600 square feet in two buildings with metal and wood frame modular construction.

- Hayward's utility center, which is located at 24499 Soto Road and consists of approximately 14,000 square feet with reinforced concrete construction. The building, which was purchased and renovated in 1994, houses the administrative offices of the utilities department (which provides supervisory oversight of the water and wastewater system), inspectors for the point source water pollution control program, and the police department crime laboratory.

- Hayward's municipal street lighting system.

The Project to be Financed

Hayward's portion of the proceeds of the Bonds will be made available to Hayward primarily for the following purposes:

- To acquire certain fire department apparatus, utilities department specialized vehicles and a high speed color printer/copier for Hayward.
- To prepay existing capital leases originated to acquire the street light system, to retrofit municipal facilities with energy-conserving lighting and HVAC systems and controls, and to acquire various public works vehicles and equipment.
- To pay in full Hayward's share of two outstanding certificate of participation issues known as "Certificates of Participation (ABAG XXIV) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by One or More of the Cities of Hayward and San Jose and the Castro Valley Unified School District, California as the Rental for Certain Property Pursuant to Lease Agreements with the ABAG Finance Corporation," which were executed and delivered in April 1992 in the original principal amount of \$8,225,000, and "Certificates of Participation (ABAG 33) including Certificates of Participation Series A Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the City of Hayward to the ABAG Finance Corporation (California), Bank Qualified," which were executed and delivered in December 1994 in the original principal amount of \$1,205,000.

City Finances

The following selected financial information provides a brief overview of Hayward's finances. This financial information has been extracted from Hayward's audited financial statements and, in some cases, from unaudited information provided by Hayward's Finance Department. The most recent audited financial statements of Hayward with an unqualified auditor's opinion are available from Hayward at the following address: 777 B Street, Hayward, California 94541; telephone (510) 583-4010. Maze & Associates, Walnut Creek, California, have audited the financial statements of Hayward.

General Fund Financial Summary

The information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from Hayward's audited financial statements for fiscal years 1997-98 through 1999-00.

CITY OF HAYWARD
General Fund Balance Sheet
As of June 30 for Fiscal Years 1998 through 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Assets:</u>			
Cash available for operations	\$11,666,044	\$12,911,654	\$20,559,175
Accounts receivable	1,197,860	1,532,266	1,362,760
Loans receivable	362,759	346,283	316,933
Interest receivable	34,617	46,981	--
Due from other funds	1,285,517	591,775	406,769
Long-term interfund receivables	1,400,000	--	--
Due from other governments	1,879,998	2,626,521	1,382,920
Inventory	25,522	22,294	25,255
Other assets	<u>--</u>	<u>407,185</u>	<u>--</u>
 Total assets	 <u>\$17,852,317</u>	 <u>\$18,484,959</u>	 <u>\$24,053,812</u>
 <u>Liabilities, Fund Equity and Other Credits</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 787,733	\$1,105,967	\$1,065,808
Accrued liabilities	476,900	179,903	218,003
Refundable deposits	256,698	177,948	463,084
Long-term interfund payables	436,581	330,783	271,026
Due to other governments	25,000	25,000	274,771
Deferred revenue	434,010	714,180	726,746
Compensated absences	<u>911,505</u>	<u>911,505</u>	<u>911,505</u>
 Total liabilities	 3,328,427	 3,445,286	 3,930,943
 <u>Equities and Other Credits:</u>			
Fund balances: Reserved	2,766,617	1,158,145	1,346,708
Unreserved-Designated	<u>11,757,273</u>	<u>13,881,528</u>	<u>18,776,161</u>
 Total Fund Equity and Other Credits	 14,523,890	 15,039,673	 20,122,869
 Total Liabilities, Fund Equity and Other Credits	 <u>\$17,852,317</u>	 <u>\$18,484,959</u>	 <u>\$24,053,812</u>

*Source: The City of Hayward, Finance Department, Comprehensive Annual Financial Reports
(1997-98 through 1999-00)*

CITY OF HAYWARD
General Fund
Summary of Revenues and Expenditures
For Fiscal Years 1997-98 through 1999-00

	Audited <u>1997-98</u>	Audited <u>1998-99</u>	Audited <u>1999-00</u>
Revenues:			
Property taxes	\$12,718,943	\$13,755,263	\$14,739,372
Sales taxes	24,975,318	26,535,664	29,484,139
Other taxes	12,993,338	15,237,215	15,372,921
Licenses and permits	1,724,348	2,401,021	2,318,115
Fines and forfeitures	358,074	777,936	727,615
Use of money and property	665,577	248,143	794,737
Intergovernmental	6,934,304	7,648,882	9,154,089
Charges for services	1,916,731	2,559,505	2,687,444
Other revenue	<u>2,357,513</u>	<u>2,602,748</u>	<u>1,850,127</u>
Total Revenues	64,644,146	71,766,377	77,128,559
Expenditures:			
Current:			
General government	6,469,216	6,778,778	7,413,444
Public safety	42,205,465	45,701,591	44,408,450
Public works	9,159,496	9,109,643	9,046,513
Community development	2,274,420	2,196,676	2,409,044
Culture and leisure	2,419,420	2,547,019	2,605,795
Non departmental	273,950	302,213	363,486
Capital outlay	--	5,100,000	--
Debt service			
Principal	181,283	397,311	410,042
Interest and fiscal charges	<u>109,156</u>	<u>114,948</u>	<u>94,484</u>
Total Expenditures	63,092,406	72,248,179	66,751,258
Excess (deficiency) of revenues over (under) expenditures	1,551,740	(481,802)	10,377,301
Other Financing Sources (Uses)			
Proceeds from long term debt	--	2,900,000	--
Operating transfers in	4,535,073	4,472,378	4,236,978
Operating transfers out	<u>(3,647,259)</u>	<u>(6,374,793)</u>	<u>(9,531,083)</u>
Total other financing sources (uses)	887,814	997,585	(5,294,105)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,439,554	515,783	5,083,196
Beginning Fund Balance- July 1	12,084,336	14,523,890	15,039,673
Ending Fund Balances- June 30	<u>\$14,523,890</u>	<u>\$15,039,673</u>	<u>\$20,122,869</u>

Source: The City of Hayward, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

Sales Taxes

Sales tax revenues were the largest source of revenues for Hayward in fiscal year 1999-00, accounting for approximately 38% of Hayward's general fund revenues in that year. The State collects and administers sales taxes, and makes distributions on taxes collected within Hayward as follows:

CITY OF HAYWARD Sales Tax Rates

State General Fund	6.00%
City of Hayward	1.00
Alameda County Transportation Authority	0.50
Bay Area Rapid Transit District	<u>0.50</u>
Total	8.00%

The State's actual administrative costs with respect to the portion of sales taxes allocable to Hayward are deducted before distribution and are determined on a quarterly basis.

The following table shows annual taxable retail store sales in Hayward in the last five years for which figures are available, as reported by the State Board of Equalization. During calendar year 2000, total taxable sales that were reported in Hayward were reported to be \$3,001,231,000, a 15% increase of the total taxable sales of \$2,608,882,000, that were reported for calendar year 1999.

CITY OF HAYWARD Taxable Retail Sales (in thousands)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Retail Stores	\$1,102,350	\$1,190,115	\$1,239,077	\$1,376,852	\$1,560,425
Total All Outlets	2,105,149	2,228,633	2,364,496	2,608,882	3,001,231

Source: State of California, Board of Equalization.

Property Taxes

Assessed Valuation. The following table shows historical assessed valuation for Hayward.

CITY OF HAYWARD Assessed Valuation

<u>Fiscal Year</u>	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1997-98	\$6,238,369,808	\$12,902,722	\$676,786,525	\$6,928,059,055
1998-99	6,659,612,919	6,331,810	723,096,625	7,389,041,354
1999-00	7,091,074,315	4,404,396	808,098,037	7,903,576,748
2000-01	7,810,384,681	4,621,873	837,408,026	8,652,414,580
2001-02	8,642,192,552	4,705,450	906,024,815	9,552,922,817

Source: California Municipal Statistics, Inc.

Property Tax Collections and Delinquencies. The table below sets forth for fiscal years 1995-96 through 1999-00, the property tax levies, actual collections and delinquencies in Hayward for property tax accruing to Hayward's general fund.

**CITY OF HAYWARD
Secured Tax Levies, Collections and Delinquencies**

<u>Fiscal Year</u>	<u>Secured Tax Charge ⁽¹⁾</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
1995-96	\$62,493,520	\$1,625,338	2.60%
1996-97	63,401,461	1,514,394	2.39
1997-98	64,559,539	1,338,850	2.07
1997-98	64,559,539	1,338,850	2.07
1998-99	11,168,857	276,984	2.48
1999-00	12,006,063	230,717	1.92

(1) All taxes collected by the county within the city.

Source: California Municipal Statistics, Inc.

Principal Taxpayers. The twenty largest secured taxpayers in Hayward are shown below:

**CITY OF HAYWARD
Principal Taxpayers
2001-02 Secured Tax Roll**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2000-01 Assessed Valuation</u>	<u>% of Total (1)</u>
Berkeley Farm Inc.	Industrial	\$ 115,396.721	1.34%
The Equitable Life Assurance Society of America	Shopping Center	108,545.633	1.26
Security Capital Industrial Trust / SCI LP	Industrial	95,980.662	1.11
ESI (CA) QRS 12-6 Inc.	Industrial	87,546.415	1.01
SPK-Industrial Portfolio LLC	Industrial	86,453.123	1.00
Hayward Point Eden I LP	Industrial	61,150.763	0.71
Bottling Group LLC	Industrial	54,194.767	0.63
Calwest Industrial Properties LLC	Industrial	53,563.000	0.62
Essex Wimbledon Woods Apartments	Apartments	47,011.466	0.54
Winton Industrial Center Inc.	Industrial	40,853.600	0.47
Hayward Industrial Park Associates	Industrial	40,789.111	0.47
Mervyn's	Office Building	37,154.541	0.43
AMB Institutional Alliance Fund I LP/ AMB Partners/AMB Property LP	Office Building	35,793.691	0.41
Bay Waterford Inc.	Apartments	34,166.420	0.40
Kobe Precision Inc.	Industrial	33,305.697	0.39
Spieker Properties LP	Office Building	30,289.112	0.35
Meridian Apartments LLC	Apartments	30,077.560	0.35
Stephen P. Diamond, Trust	Apartments	29,870.565	0.35
Glen Oaks LLC	Apartments	25,964.294	0.30
EKC Technology Inc.	Industrial	25,382.773	0.29
		<u>\$1,073,489.914</u>	<u>12.42%</u>

(1) Based on 2001-02 Local Secured Assessed Valuation: \$8,642,192,552

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within Hayward are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics, Inc., of Oakland, California.

CITY OF HAYWARD Statement of Direct and Overlapping Debt As of June 30, 2001

2000-01 Assessed Valuation:	\$8,652,414,580
Redevelopment Incremental Valuation:	<u>203,677,490</u>
Adjusted Assessed Valuation:	\$8,448,737,090

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
Castro Valley Unified School District	0.187%	\$ 23,656
New Haven Unified School District	18.803	18,510,444
Pleasanton Unified School District	0.067	85,085
East Bay Municipal Utility District	0.469	29,641
East Bay Regional Park District	5.004	8,709,212
City of Hayward 1915 Act Bonds	100.	6,998,000
Alameda County Combined Reassessment District	100.	<u>1,725,000</u>
SUBTOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 36,081,038
Less: East Bay Municipal Utility District (100% self-supporting)		<u>29641</u>
SUBTOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		36,051,397

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
Alameda-Contra Costa Transit District Certificates of Participation	9.779%	\$2,315,178
Alameda County General Fund Obligations		49,581,786
Alameda County Pension Obligations		40,589,704
Alameda County Board of Education Certificates of Participation		463,556
Chabot-Las Positas Community College District Certificates of Participation		923,023
Hayward Unified School District Certificates of Participation		11,125,774
New Haven Unified School District Certificates of Participation		955,192
San Lorenzo Unified School District Certificates of Participation		4,804,873
astro Valley and Pleasanton Unified School District		6,244
City of Hayward General Fund Obligations		<u>46,010,039</u>
SUBTOTAL TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$156,775,369

GROSS COMBINED TOTAL DEBT	\$192,856,407	(1)
NET COMBINED TOTAL DEBT	192,826,766	

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

<u>Ratios to 2000-01 Assessed Valuation:</u>	
Subtotal Gross Overlapping Tax and Assessment Debt.....	0.42%
Subtotal Net Overlapping Tax and Assessment Debt.....	0.42%

<u>Ratios to Adjusted Assessed Valuation:</u>	
Combined Direct Debt (\$46,010,039).....	0.54%
Gross Combined Total Debt.....	2.28%
Net Combined Total Debt.....	2.28%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

Source: California Municipal Statistics, Inc.

CITY OF SOLANA BEACH

General

The City of Solana Beach ("Solana Beach") is located on the northern coast of San Diego County. The City is bounded on the west by the Pacific Ocean, on the north by San Elijo Lagoon and the City of Encinitas, and on the south by the Cities of Del Mar and San Diego. Solana Beach is a general law city, and was incorporated in 1986 with a council-manager form of government. The Solana Beach City Council consists of five members elected at large by Solana Beach voters. Council members serve a four year term. Council members appoint the City Manager who is responsible for the proper administration of Solana Beach. The table below shows population estimates for Solana Beach, San Diego County and the State.

CITY OF SOLANA BEACH Population Estimates

<u>Year</u>	<u>City of Solana Beach</u>	<u>San Diego County</u>	<u>State of California</u>
1997	13,700	2,729,100	32,670,000
1998	13,950	2,795,800	33,226,000
1999	14,150	2,855,900	33,766,000
2000	13,050	2,835,400	34,207,000
2001	13,250	2,883,600	34,818,000

Source: California State Department of Finance.

The Leased Property

Solana Beach and the Authority will determine, prior to the issuance of the Bonds, the exact property that will be subject to the Solana Beach Lease Agreement, provided that the value of such property will be at least equal to the amount of Bonds attributable to Solana Beach. The property subject to the Lease Agreement is anticipated to be Solana Beach's City Hall, which includes a building of approximately 17,000 square feet and 80-space parking lot. City Hall is located on Highway 101 in the southwestern end of the City, within one block of the Pacific Ocean in a commercially developed area of the City. City Hall contains the city's Council Chambers and general administrative offices for the City. The building was built in 1986 and remodeled in 1992.

The Project to be Financed

Solana Beach's portion of the proceeds of the Bonds will be made available to Solana Beach primarily to pay in full Solana Beach's share of two outstanding certificate of participation issues known as "Certificates of Participation Series 1992 (City Hall Project) Evidencing a Proportionate Interest of the Owners Thereof in Lease Payments to be Made by the City of Solana Beach (San Diego County, California)," which were executed and delivered in October 1992 in the original principal amount of \$2,500,000, and "Certificates of Participation Series 1995 (Fire Station Refunding) Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the City of Solana Beach, California (San Diego County, California) to the Solana Beach Public Facilities Corporation (A California Nonprofit Public Benefit Corporation)," which were executed and delivered in September 1995 in the original principal amount of \$1,635,000.

City Finances

The following selected financial information provides a brief overview of Solana Beach's finances. This financial information has been extracted from Solana Beach's audited financial statements and, in some cases, from unaudited information provided by Solana Beach's Finance Department. The most recent audited financial statements of Solana Beach with an unqualified auditor's opinion are available from Solana Beach at the following address: 635 South Highway 101, Solana Beach, California 92075; telephone (858) 720-2460. Moreland & Associates, Inc., Certified Public Accountants, Newport Beach, California, have audited the financial statements of Solana Beach.

General Fund Financial Summary

The information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from Solana Beach's audited financial statements for fiscal years 1997-98 through 1999-00.

CITY OF SOLANA BEACH General Fund Balance Sheet As of June 30 for Fiscal Years 1998 through 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Assets and Other Debits</u>			
Cash and Investments	\$6,364,417	\$7,171,742	\$7,384,664
Taxes receivable	52,137	44,547	67,759
Accounts receivable	52,755	104,388	128,327
Interest receivable	90,701	83,849	130,181
Due from other governmental agencies	361,543	446,644	465,394
Due from other funds	62,003	261,312	190,985
Advances to other funds	865,624	870,354	--
Deposits	<u>7,664</u>	<u>7,975</u>	<u>7,975</u>
 Total assets	 <u><u>\$7,856,844</u></u>	 <u><u>\$8,990,811</u></u>	 <u><u>\$8,375,285</u></u>
<u>Liabilities:</u>			
Accounts payable and accrued liabilities	\$ 435,580	\$ 696,415	\$ 492,806
Deposits	<u>325,808</u>	<u>310,503</u>	<u>363,659</u>
 Total liabilities	 761,388	 1,006,918	 856,465
<u>Equity and Other Credits:</u>			
Reserved	1,617,153	2,031,208	1,066,412
Unreserved- undesignated:	<u>5,578,303</u>	<u>5,952,685</u>	<u>6,452,408</u>
 Total Fund Equity and Other Credits	 7,195,456	 7,983,893	 7,518,820
 Total Liabilities, Fund Equity and Other Credits	 <u><u>\$7,956,844</u></u>	 <u><u>\$8,990,811</u></u>	 <u><u>\$8,375,285</u></u>

Source: The City of Solana Beach, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

**CITY OF SOLANA BEACH
General Fund
Summary of Revenues and Expenditures
For Fiscal Years 1997-98 through 1999-00**

	<u>Audited</u> <u>1997-98</u>	<u>Audited</u> <u>1998-99</u>	<u>Audited</u> <u>1999-00</u>
Revenues:			
Taxes and assessments	\$5,329,749	\$5,709,090	\$ 6,510,642
Intergovernmental	752,654	773,536	1,091,309
Licenses and permits	250,151	320,358	215,296
Charges for services	413,028	582,481	636,726
Fines and forfeitures	125,777	168,282	169,368
Revenues from use of money and property	408,666	447,607	482,907
Other	<u>341,678</u>	<u>377,240</u>	<u>432,258</u>
Total Revenues	7,621,703	8,378,594	9,538,506
Expenditures:			
General government	977,657	1,700,515	2,403,102
Public safety	3,888,680	4,009,791	4,200,303
Public works	704,712	939,993	810,312
Community development	432,496	599,563	546,481
Community services	<u>152,813</u>	<u>185,408</u>	<u>214,717</u>
Total Expenditures	6,156,358	7,435,270	8,174,915
Excess (deficiency) of revenues over (under) expenditures	1,465,345	943,324	1,363,591
Other Financing Sources (Uses)			
Operating transfers in	289,990	381,623	--
Operating transfers out	<u>(616,395)</u>	<u>(536,510)</u>	<u>(1,965,437)</u>
Total Other Financing Sources (Uses)	<u>(326,405)</u>	<u>(154,887)</u>	<u>(1,965,437)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,138,940	788,437	(601,846)
Beginning Fund Balance- July 1	<u>6,056,516</u>	<u>7,195,456</u>	<u>8,096,398</u>
Ending Fund Balances- June 30	<u><u>\$7,195,456</u></u>	<u><u>\$7,983,893</u></u>	<u><u>\$7,518,820</u></u>

Source: The City of Solana Beach, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

Sales Taxes

The State collects and administers sales taxes, and makes distributions on taxes collected within Solana Beach as follows:

CITY OF SOLANA BEACH Sales Tax Rates

State General Fund	6.00%
City of Solana Beach	1.00
San Diego County Regional Transportation Commission	<u>0.50</u>
Total	7.50%

The State's actual administrative costs with respect to the portion of sales taxes allocable to Solana Beach are deducted before distribution and are determined on a quarterly basis.

The following table shows annual taxable retail store sales in Solana Beach in the last five years for which figures are available, as reported by the State Board of Equalization. During calendar year 2000, total taxable sales that were reported in Solana Beach were reported to be \$183,451,000, a 12.9% increase of the total taxable sales of \$162,432,000 that were reported for calendar year 1999.

CITY OF SOLANA BEACH Taxable Retail Sales (in thousands)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Retail Stores	\$112,427	\$122,384	\$134,635	\$154,577	\$169,994
Total All Outlets	134,136	146,056	162,432	183,451	202,548

Source: State of California, Board of Equalization.

Property Taxes

Assessed Valuation. The following table shows historical assessed valuation for Solana Beach.

CITY OF SOLANA BEACH Assessed Valuation

<u>Fiscal Year</u>	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1997-98	\$1,451,747,452	\$1,166,409	\$25,948,868	\$1,478,862,729
1998-99	1,530,562,830	1,695,217	27,251,628	1,559,509,675
1999-00	1,696,598,535	1,846,882	31,851,817	1,730,297,234
2000-01	1,828,461,945	1,886,310	32,579,832	1,862,928,087
2001-02	2,001,619,574	1,924,110	35,864,037	2,039,407,721

Source: California Municipal Statistics, Inc.

Property Tax Collections and Delinquencies. The table below sets forth for fiscal years 1995-96 through 1999-00, the property tax levies, actual collections and delinquencies in Solana Beach for property tax accruing to Solana Beach's general fund.

**CITY OF SOLANA BEACH
Property Tax Levies, Collections and Delinquencies**

<u>Fiscal Year</u>	<u>Secured Tax Charge ⁽¹⁾</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
1996-97	\$2,088,151	\$46,502	2.23%
1997-98	2,137,597	39,645	1.85
1998-99	2,244,858	37,462	1.67
1999-00	2,476,643	44,031	1.78
2000-01	2,740,347	44,417	1.62

(1) 1% General Fund levy.
Source: California Municipal Statistics, Inc.

Principal Taxpayers. The twenty largest secured taxpayers in Solana Beach are shown below:

**CITY OF SOLANA BEACH
Principal Taxpayers
2001-02 Secured Tax Roll**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2001-02 Assessed Valuation</u>	<u>% of Total (1)</u>
SB Corporate Centre LLC	Commercial Buildings	\$ 34,528,323	1.73%
Pacific Solana Beach Holdings LP	Shopping Center	24,383,970	1.22
Fenton Solana Highlands LLC	Apartments	23,433,985	1.17
Sanyo Foods Corp. of America	Country Club	20,670,022	1.03
ERP Operating LP	Apartments	14,981,760	0.75
La Vida Del Mar Associates	Rest Home/Convalescent Hospital	13,191,331	0.66
Price Enterprises	Industrial	10,724,832	0.54
Generation Venture Fund IV LLC	Commercial Buildings	10,039,860	0.50
Urschel Laboratories Inc.	Apartments	10,000,000	0.50
Hibiscus Investments Inc.	Commercial Buildings	9,363,600	0.47
Generation Properties LP	Commercial Buildings	6,780,302	0.34
Pacifica Solana LLC	Hotel/Motel	6,614,935	0.33
Ozawa Farms Inc.	Shopping Center	6,200,000	0.31
Solana Beach Business Centre LLC	Industrial	4,917,959	0.25
National Golf Operating Partnership LP	Golf Course	4,879,492	0.24
Alps Hospitality Inc.	Hotel/Motel	4,829,427	0.24
Itec Properties	Professional Buildings	4,160,000	0.21
C.R. and F.M. Sell, Family Trust	Industrial	3,737,455	0.19
Silverado Apartments LLC	Apartments	3,609,569	0.18
Joel J. and Ramona F. Maiman	Commercial Buildings	<u>3,454,585</u>	<u>0.17</u>
		\$220,501,407	11.02%

(1) Based on 2001-02 Local Secured Assessed Valuation: \$2,001,619,574
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within Solana Beach are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics, Inc., of Oakland, California.

CITY OF SOLANA BEACH Statement of Direct and Overlapping Debt As of June 30, 2001

2000-2001 Assessed Valuation: \$1,862,928,087

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
Metropolitan Water District	0.190%	\$ 1,002,212
San Diego County Water Authority	1.085	51,266
San Dieguito Union High School Dist. Community Facilities Dist. No. 95-1	3.274	617,474
Olivenhain Municipal Water District, Assessment District No. 96-1	0.799	171,825
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		1,842,777
<u>DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	1.045%	5,552,209
San Diego County Pension Obligation Bonds	1.045	3,316,255
San Diego County Superintendent of Schools General Fund Obligations	1.045	22,729
MiraCosta Community College District Certificates of Participation	5.291	357,407
Solana Beach School District Certificates of Participation	28.638	468,231
City of Solana Beach Certificates of Participation	100.000	3,450,000
TOTAL DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT		13,166,831
COMBINED TOTAL DEBT		\$ 15,009,608

Ratios to Assessed Valuation:

Combined Direct Debt (\$3,150,000)	0.19%
Total Overlapping Tax and Assessment Debt	0.10%
Combined Total Debt	0.81%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01:	\$0

“1” Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CITY OF SOUTH LAKE TAHOE

General

The City of South Lake Tahoe ("South Lake Tahoe") is located at the southwest corner of Lake Tahoe in El Dorado County, about 160 miles northeast of Sacramento and adjacent to the Nevada state line. South Lake Tahoe encompasses an area of about nine square miles. South Lake Tahoe was incorporated in 1965 with a council-manager form of government. The South Lake Tahoe City Council consists of five members, all of whom are elected at large by South Lake Tahoe voters. Council members serve a four year term, and appoint the City Manager who is responsible for the administration of South Lake Tahoe.

The following table shows population estimates for South Lake Tahoe, El Dorado County and the State.

CITY OF SOUTH LAKE TAHOE Population Estimates

<u>Year</u>	<u>City of South Lake Tahoe</u>	<u>El Dorado County</u>	<u>State of California</u>
1997	22,650	144,000	32,670,000
1998	23,000	148,800	33,226,000
1999	23,050	151,300	33,766,000
2000	23,900	157,200	34,207,000
2001	23,950	159,700	34,818,000

Source: California State Department of Finance.

The Leased Property

South Lake Tahoe and the Authority will determine, prior to the issuance of the Bonds, the exact property that will be subject to the South Lake Tahoe Lease Agreement, provided that the value of such property will be at least equal to the amount of Bonds attributable to South Lake Tahoe. The property subject to the Lease Agreement is anticipated to be Fire Station 1, one of three fire stations owned and operated by South Lake Tahoe. Fire Station 1 is a 6,300 square foot, two-story facility built in 1994. The station sits at the northwest corner of the Ski Run Boulevard and Pioneer Trail intersection, in one of the primary commercial areas of South Lake Tahoe. The facility houses two fire engines and an ambulance, sleeps five people, and includes a full kitchen, living area, office and education center.

The Project to be Financed

South Lake Tahoe's portion of the proceeds of the Bonds will be made available to South Lake Tahoe primarily for the following purposes:

- To acquire certain capital equipment for South Lake Tahoe, including street cleaning, fire fighting and ice rink equipment.
- To repay in full a capital equipment lease used to finance a fuel pump farm and related environmental containment facilities at the Lake Tahoe Airport.

- To pay in full South Lake Tahoe's share of an outstanding certificate of participation issue known as "Certificates of Participation (ABAG 31) including Certificates of Participation Series B Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the City of South Lake Tahoe and Martinez Unified School District to the ABAG Finance Corporation (California)." which were executed and delivered in August 1993 in the original principal amount of \$2,245,000.

City Finances

The following selected financial information provides a brief overview of South Lake Tahoe's finances. This financial information has been extracted from South Lake Tahoe's audited financial statements and, in some cases, from unaudited information provided by South Lake Tahoe's Finance Department. The most recent audited financial statements of South Lake Tahoe with an unqualified auditor's opinion are available from South Lake Tahoe at the following address: 1052 Tata Lane, South Lake Tahoe, California 96150; telephone (530) 542-6048. The financial statements of South Lake Tahoe have been audited by Moss, Levy & Hartzheim, Citrus Heights, California. South Lake Tahoe's fiscal year ends on September 30.

General Fund Financial Summary

The information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from South Lake Tahoe's audited financial statements for fiscal years 1997-98 through 1999-00.

CITY OF SOUTH LAKE TAHOE
General Fund Balance Sheet
As of September 30 for Fiscal Years 1998 through 2000

	1998	1999	2000
<u>Assets and Other Debits</u>			
Cash and investments	\$ 775,850	\$ 372,166	\$3,275,257
Deposit	50,000	--	--
Prepaid expenses	--	--	1,421
Accounts receivable-net	1,484,388	1,554,650	1,611,922
Interest receivable	--	--	148,675
Due from other funds	4,174,124	3,712,082	2,196,680
Inventory	262,379	199,913	206,711
Advances to other funds	<u>380,639</u>	<u>380,639</u>	<u>380,639</u>
Total assets	<u>\$7,127,380</u>	<u>\$6,219,450</u>	<u>\$7,821,305</u>
 <u>Liabilities, Fund Equity and Other Credits</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 494,222	\$ 153,728	\$ 374,350
Accrued expenditures	347,304	499,091	570,088
Deposits	71,791	400,505	128,434
Deferred revenue	142	--	
Uninsured losses payable	1,096,442	870,084	
Compensated absences	<u>--</u>	<u>85,606</u>	<u>77,340</u>
Total liabilities	2,009,901	2,009,014	1,150,212
 <u>Fund Equity and Other Credits:</u>			
<u>Fund Balances</u>			
<u>Reserved:</u>			
Encumbrances	93,174	66,710	73,328
Inventory	262,379	199,913	206,711
Advances to other funds	380,639	380,639	380,639
<u>Unreserved: designated</u>			
Unemployment insurance	--	--	52,400
Infrastructure	--	200,000	26,199
PERS savings	--	165,755	168,046
Cash reserve	500,000	500,000	500,000
Contingencies/litigation	999,885	1,000,000	850,000
General liability claims	750,000	750,000	750,000
Worker's compensation claims	510,000	510,000	510,000
Unreserved, undesignated	<u>1,621,402</u>	<u>437,419</u>	<u>3,153,770</u>
Total Fund Equity and Other Credits	5,117,479	4,210,436	6,671,093
 Total Liabilities, Fund Equity and Other Credits			
	<u>\$7,127,380</u>	<u>\$6,219,450</u>	<u>\$7,821,305</u>

Source: The City of South Lake Tahoe, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

CITY OF SOUTH LAKE TAHOE
General Fund
Summary of Revenues and Expenditures
For Fiscal Years 1997-98 through 1999-00

	Audited <u>1997-98</u>	Audited <u>1998-99</u>	Audited <u>1999-00</u>
Revenues:			
Taxes	\$11,686,627	\$ 12,545,277	\$13,947,588
Licenses, permits and impact fees	528,965	426,395	450,397
Fines and penalties	149,350	253,194	224,649
Investment revenue	370,315	219,099	315,171
Intergovernmental revenue	1,340,464	1,488,608	1,505,668
Charges for current services	143,981	156,566	364,404
Other revenues	<u>200,959</u>	<u>210,484</u>	<u>205,967</u>
Total Revenues	\$14,420,661	15,299,623	17,013,844.
Expenditures:			
General government	3,264,826	3,611,320	3,570,885
Public safety	7,799,659	8,427,791	8,810,322
Public works	2,670,084	2,767,832	1,272,648
Debt service	<u>105,635</u>	<u>35,680</u>	<u>110,523</u>
Total Expenditures	13,840,204	14,842,623	13,764,378
Excess (deficiency) of revenues over (under) expenditures	580,457	457,000	3,249,466
Other Financing Sources (Uses):			
Operating transfers in	1,695,308	1,318,064	579,590
Operating transfers out	<u>(988,644)</u>	<u>(2,709,546)</u>	<u>(2,510,783)</u>
Total Other Sources (Uses)	706,664	(1,391,482)	(1,931,193)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,287,121	(934,482)	1,318,273
Beginning Fund Balance- October 1	3,522,447	5,117,479	4,210,436
Residual equity transfer	--	--	870,083
Prior period adjustment	<u>307,911</u>	<u>27,439</u>	<u>272,301</u>
Ending Fund Balances- September 30	\$5,117,479	\$4,210,436	\$6,671,093

Source: The City of South Lake Tahoe, Finance Department, Comprehensive Annual Financial Reports (1997-98 through 1999-00).

Sales Taxes

Sales tax revenues were the largest source of general fund revenues for South Lake Tahoe in fiscal year 1999-00. The State collects and administers sales taxes, and makes distributions on taxes collected within South Lake Tahoe as follows:

**CITY OF SOUTH LAKE TAHOE
Sales Tax Rates**

State General Fund	6.00%
City of South Lake Tahoe	<u>1.00</u>
Total	7.00%

The State's actual administrative costs with respect to the portion of sales taxes allocable to South Lake Tahoe are deducted before distribution and are determined on a quarterly basis.

The following table shows annual taxable retail store sales in South Lake Tahoe in the last five years for which figures are available, as reported by the State Board of Equalization. During calendar year 2000, total taxable sales that were reported in South Lake Tahoe were reported to be \$307,825,000, a 9.1% increase of the total taxable sales of \$282,051,000 that were reported for calendar year 1999.

**CITY OF SOUTH LAKE TAHOE
Taxable Retail Sales
(in thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Retail Stores	\$209,568	\$212,961	\$216,604	\$237,361	\$259,199
Total All Outlets	249,201	254,153	257,592	282,051	307,825

Source: State of California, Board of Equalization.

Property Taxes

Assessed Valuation. The following table shows historical assessed valuation for South Lake Tahoe.

**CITY OF SOUTH LAKE TAHOE
Assessed Valuation**

<u>Fiscal Year</u>	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1997-98	\$1,838,926,495	\$260,000	\$61,152,409	\$1,900,338,904
1998-99	1,920,704,881	260,000	62,471,657	1,983,436,538
1999-00	2,013,413,998	260,000	71,431,726	2,085,105,724
2000-01	2,072,335,568	260,000	79,482,955	2,152,078,523
2001-02	2,206,904,522	260,000	76,513,655	2,283,678,177

Source: California Municipal Statistics, Inc.

Property Tax Collections and Delinquencies. The table below sets forth for fiscal years 1996-97 through 2000-01, the property tax levies, actual collections and delinquencies in Nevada County. Figures are not available for South Lake Tahoe.

EL DORADO COUNTY
Secured Tax Levies, Collections and Delinquencies

<u>Fiscal Year</u>	<u>Secured Tax Charge ⁽¹⁾</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
1996-97	\$116,891,896	\$4,806,286	4.11%
1997-98	121,608,340	4,260,492	3.50
1998-99	126,686,003	4,137,344	3.27
1999-00	133,633,826	4,163,476	3.12
2000-01	143,148,392	4,215,584	2.94

(1) All taxes collected by the County.

Source: California Municipal Statistics, Inc.

Principal Taxpayers. The twenty largest secured taxpayers in South Lake Tahoe are shown below:

CITY OF SOUTH LAKE TAHOE
Principal Taxpayers
2001-02 Secured Tax Roll

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2001-02 Assessed Valuation</u>	<u>% of Total (1)</u>
KOAR-Tahoe Partners	Hotel/Motel	\$ 41,627,500	1.89%
Lake Tahoe Resort Partners	Resort-Timeshare	38,305,645	1.74
Seven Springs LP	Commercial Store	13,287,390	0.60
Stardust Vacation Club	Resort-Timeshare	12,702,458	0.58
Robert Maloff	Hotel/Motel	12,430,867	0.56
Jack Van Sickle, Trust	Commercial Store	10,555,011	0.48
Johnson Knox Van Dyke, Trust	Commercial Store	10,244,311	0.46
International Land Group	Hotel/Motel	7,923,917	0.36
Newport Pacific Tahoe Verde	Mobile Home Park	7,733,910	0.35
Stratton Investments Inc.	Hotel/Motel	6,380,093	0.29
South Tahoe Refuse Co. Inc.	Industrial	6,261,785	0.28
Michael R. Phillips	Commercial Store	6,233,012	0.28
Marjorie J. Springmeyer	Commercial Store	6,151,125	0.28
All Seasons Development Inc.	Resort-Timeshare	5,493,628	0.25
Crescent V Lands Inc.	Hotel/Motel	5,257,798	0.24
Americana Vacation Club	Resort-Timeshare	5,232,086	0.24
Richard H. Feves	Apartments	5,069,315	0.23
Embarcadero Holdings One	Commercial Store	5,062,400	0.23
Bijou Woods Associates LP	Apartments	4,725,000	0.21
Sean Degnan	Residential Properties	4,367,011	0.20
		<u>\$215,044,262</u>	<u>9.74%</u>

(1) Based on 2001-02 Local Secured Assessed Valuation: \$2,206,904,522

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within South Lake Tahoe are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics, Inc., of Oakland, California.

**CITY OF SOUTH LAKE TAHOE
Statement of Direct and Overlapping Debt
As of June 30, 2001**

2000-01 Assessed Valuation: \$2,152,064,732
 Redevelopment Incremental Valuation: 162,830,950
 Adjusted Assessed Valuation: \$1,989,233,782

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
Lake Tahoe Unified School District	66.279%	\$15,498,522
South Lake Tahoe Recreational Facilities Community Facilities District No. 2000-1	66.279	3,854,124
City of South Lake Tahoe	100.000	0
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$19,352,646

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
El Dorado County General Fund Obligations	15.903%	\$ 2,750,424
El Dorado County Board of Education Certificates of Participation	15.903	5,185
Lake Tahoe Community College District Certificates of Participation	66.279	291,628
City of South Lake Tahoe Certificates of Participation	100.000	27,695,000 ⁽¹⁾
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$30,742,237
COMBINED TOTAL DEBT		\$50,094,883 ⁽²⁾

⁽¹⁾ Excludes certificates of participation to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2000-01 Assessed Valuation:

Direct Debt.....0.00%
 Total Overlapping Tax and Assessment Debt.....0.90%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$27,695,000).....1.39%
 Combined Total Debt.....2.52%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

Source: California Municipal Statistics, Inc.

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture, the Site and Facility Leases and the Lease Agreements. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

DEFINITIONS

“*Additional Payments*” means the additional payments to be made by the Participants pursuant to the Lease Agreements.

“*Authority*” means the Association of Bay Area Governments, a joint exercise of powers authority duly organized and existing under the laws of the State .

“*Authority Continuing Disclosure Certificate*” shall mean that certain Continuing Disclosure Certificate executed by the Authority and dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“*Authorized Representative*” means: (a) with respect to the Authority, its President, Vice President,, Secretary/Treasurer, Finance Director, Public Finance Director or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Secretary/Treasurer and filed with the Participants and the Trustee; and (b) with respect to a Participant, its Mayor, City Manager, Finance Director, or any other person designated as an Authorized Representative of such Participant by a Written Certificate of such Participant signed by its Mayor, City Manager or Finance Director and filed with the Authority and the Trustee.

“*Bond Counsel*” means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

“*Bond Fund*” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“*Bond Law*” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of Chapter 5, Division 7, Title 1 of the Government Code of the State , as amended from time to time.

“*Bond Year*” means each twelve-month period extending from July 2 in one calendar year to July 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year shall commence on the Closing Date and extend to and including July 1, 2002.

“*Bonds*” means the Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2 (California Capital Projects), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

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

"Closing Date" means the date of delivery of the Bonds to the Original Purchaser.

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

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee (including but not limited to fees and expenses for legal counsel), title insurance premiums, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture. Within the Costs of Issuance Fund, separate accounts shall be created for each Participant.

"Defeasance Obligations" means (a) cash, (b) non-callable Federal Securities, (c) non-callable debt obligations of the Federal National Mortgage Association, or (d) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and (i) which are rated, based on the escrow, in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Federal Securities, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

"Event of Default" means, with respect to the Indenture, any of the events specified therein. "Event of Default" means, with respect to the Lease Agreements, any of the events of default specified therein.

"Facility" means those certain improvements more particularly described in a Site and Facility Lease and in a Lease Agreement.

"Fiscal Year" means the twelve-month period beginning on June 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period established by the City as its fiscal year pursuant to written notice filed with the Authority and the Trustee.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "fair market value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a

forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security—State and Local Government Series, that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of a City Representative in any written directions of a City Representative.

“Federal Securities” means (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

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

“Grass Valley Agency Prior Obligations” means the \$1,440,000 Grass Valley Redevelopment Agency, Grass Valley Redevelopment Project, 1995 Tax Allocation Bonds.

“Grass Valley Agency Prior Obligations Escrow Bank” means Union Bank of California, N.A., as escrow bank under that certain escrow deposit and trust agreement, dated January 10, 2002, by and between the Grass Valley Agency Prior Obligations Escrow Bank and the Grass Valley Redevelopment Agency.

“Grass Valley Prior Lease-Purchase Agreement” the following lease-purchase agreement executed by the City of Grass Valley in connection with the financing of various items of capital equipment: Sublease/Option Agreement, dated August 8, 1995, by and between Bill Litchfield Construction, Inc., as assigned to Municipal Leasing Associates Inc. and Further assigned to Westamerica Bank, and the City.

“Grass Valley Agency Prior Obligations Trustee” means Union Bank of California, N.A., as trustee with respect to the Grass Valley Agency Prior Obligations.

“Hayward 1992 Prior Trustee” means U.S. Bank Trust National Association, as successor trustee with respect to the Hayward 1992 Prior Obligations.

“Hayward 1994 Prior Trustee” means U.S. Bank Trust National Association, as successor trustee with respect to the Hayward 1994 Prior Obligations.

“Hayward 1992 Prior Obligations” means that certain lease agreement, dated as of April 1, 1992, by and between the ABAG Finance Corporation and the City of Hayward, relating to the portion of the \$8,225,000 Certificates of Participation ABAG Finance Corporation (ABAG XXIV) allocable to the City of Hayward.

“Hayward Prior Obligations Escrow Bank” means U.S. Bank Trust National Association, as escrow bank under that certain escrow deposit and trust agreement, dated January 10, 2002, by and between the Hayward Prior Obligations Escrow Bank and the City of Hayward.

"*Hayward 1994 Prior Obligations*" means that certain lease agreement, dated as of December 1, 1994, by and between the ABAG Finance Corporation and the City of Hayward, relating to the \$1,205,000 Certificates of Participation ABAG Finance Corporation (ABAG 33, Series A).

"*Hayward Prior Lease-Purchase Agreements*" the following lease-purchase agreement executed by the City of Hayward: (a) Lease with Option to Purchase Agreement No. 96-1, dated December 16, 1996, by and between Access Leasing Corporation and the City; (b) Lease with Option to Purchase Agreement No. 97-232-AF, dated January 1, 1998, by and between Municipal Leasing Associates, Inc. and the City; and (c) Master Lease-Purchase Agreement, dated October 20, 2000, by and between Banc One Leasing Corporation and the City.

"*Indenture*" means the Indenture of Trust dated as of December 1, 2001, by and between the Authority and the Trustee, authorizing the issuance of the Bonds, together with any duly authorized and executed amendments thereto.

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

"*Information Services*" means Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, NY 10006; Moody's 5250 77 Centre Drive, Suite 150, Charlotte, NC 28217, Attention: Called Bonds Dept.; S&P's "Called Bond Record," 25 Broadway, 3rd Floor, New York, NY 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"*Insurance and Condemnation Fund*" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"*Interest Account*" means the account by that name established in the Bond Fund pursuant to the Indenture.

"*Interest Payment Date*" means each January 1, and July 1, commencing January 1, 2002.

"*Lease Agreements*" means those certain Lease Agreements, each dated as of December 1, 2001, by and between the Authority, as lessor, and each Participant, as lessee, of the Leased Premises, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"*Lease Payment Date*" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

"*Lease Payments*" means the aggregate amount of all the payments required to be paid by each Participant pursuant to its Lease Agreement.

"*Leased Premises*" means the real property and improvements leased by the Authority to each Participant pursuant to its respective Lease Agreement.

“*Moody’s*” means Moody’s Investors Service, New York, New York, or its successors.

“*Municipal Bond Insurance Policy*” means the municipal bond insurance policy issued by the Municipal Bond Insurer insuring the payment, when due, of the principal of and interest on the Bonds.

“*Municipal Bond Insurer*” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

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

“*Participating Underwriter*” shall have the meaning ascribed thereto in the Participant Continuing Disclosure Certificates.

“*Permitted Encumbrances*” means, as of any time: (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which a Participant may permit to remain unpaid pursuant to a Lease Agreement; (b) the Site and Facility Leases, the Lease Agreements, the Indenture and any other agreement or document contemplated under the Indenture to be recorded against the Leased Premises; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (d) encumbrances shown on the CLTA title insurance policies issued with respect to the Leased Premises on the Closing Date which the Participants certify will not materially impair the use of the Leased Premises for their intended purposes; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which the Participants certify in writing will not materially impair the use of the Leased Premises for their intended purposes.

“*Office*” means, with respect to the Trustee, the corporate trust office of the Trustee in San Francisco, California; *provided, however*, that for the purposes of maintenance of the Registration Books and presentation of Bonds for transfer, exchange or payment such term shall mean the office of the Trustee at which it conducts its corporate agency business, or at such other or additional offices as may be specified by the Trustee in writing to the Authority and the Participants.

“*Original Purchaser*” means Sutro & Co. Incorporated, as original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“*Outstanding*”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

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

“*Participant Continuing Disclosure Certificates*” shall mean those certain Continuing Disclosure Certificates executed by each of the Participants and dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Participants" means the Cities of Grass Valley ("Grass Valley"), Hayward ("Hayward"), Solana Beach ("Solana Beach") and South Lake Tahoe ("South Lake Tahoe").

"Participant's Pro Rata Portion" means the product of the total cost multiplied by a fraction, the numerator of which is the aggregate principal amount of the Bonds issued for the benefit of a Participant, and the denominator of which shall be the aggregate principal amount of the Bonds issued.

"Participating Underwriter" shall have the meaning ascribed thereto in the Authority Continuing Disclosure Certificate.

"Permitted Investments" means the following, but only to the extent that the same are acquired at Fair Market Value:

(a) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Farm Credit System Financial Assistance Corporation, (iii) Farmers Home Administration; (iv) General Services Administration; (v) U.S. Maritime Administration; (vi) Small Business Administration; (vii) Government National Mortgage Association (GNMA); (viii) U.S. Department of Housing & Urban Development (PHA's); and (ix) Federal Housing Administration;

(c) senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and senior debt obligations of other government-sponsored agencies approved by The Municipal Bond Insurer;

(d) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(e) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than 270 days after the date of purchase;

(f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including any money market fund for which the Trustee or an affiliate receives fees for investment advisory or other services to the fund;

(g) pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the

bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(i) investment agreements approved in writing by The Municipal Bond Insurer, supported by appropriate opinions of counsel;

(j) the Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and

(k) other forms of investments (including repurchase agreement) approved in writing by The Municipal Bond Insurer.

"Principal Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Project" means the project for a Participant to be financed and/or refinanced with a portion of the proceeds of the Bonds, as more fully described in the Indenture. "Projects" means all such projects.

"Project Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture. Within the Project Fund, separate accounts shall be created for each Participant.

"Rating Category" means, with respect to any Permitted Investment, one of the generic categories of rating by Moody's and S&P applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Reserve Account" means the account by that name in the Bond Fund established pursuant to the Indenture. Within the Reserve Account, separate subaccounts shall be created for each Participant.

"Reserve Requirement" means, as of the date of calculation, the aggregate, for each of the then outstanding Lease Agreements, of the lesser of the following (to be applied separately with respect to the Lease Payments due under each of the then outstanding Lease Agreements): (a) ten percent (10%) of the then unpaid principal component of the respective Lease Payments, (b) one hundred twenty-five percent (125%) of the then average annual respective Lease Payments due in the then current and each succeeding Bond Year, or (c) the maximum respective Lease Payments due in any Bond Year including the then current and each succeeding Bond Year.

"Revenues" means: (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreements, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments and insurance proceeds, but excluding any Additional Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

"S&P" means Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc., New York, New York, or its successors.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, NY 11530, Fax (516) 227-4171 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Site" means that certain real property more particularly described in a Site and Facility Lease and in a Lease Agreement.

"Site and Facility Leases" means those certain Site and Facility Leases, dated as of December 1, 2001, by and between each Participant, as lessor of its Leased Premises, and the Authority, as lessee, together with all amendments thereto.

"Solana Beach Prior Obligations Escrow Bank" means BNY Western Trust Company, as escrow bank under that certain escrow deposit and trust agreement, dated January 10, 2002, by and between the Solana Beach Prior Obligations Escrow Bank and the City of Solana Beach.

"Solana Beach 1992 Prior Obligations" means that certain lease agreement, dated as of October 1, 1992, by and between the Solana Beach Public Facilities Corporation and the City of Solana Beach relating to the \$2,500,000 City of Solana Beach Certificates of Participation, Series 1992 (City Hall Project).

"Solana Beach 1992 Prior Obligations Trustee" means BNY Western Trust Company, as successor trustee with respect to the Solana Beach Prior Obligations.

"Solana Beach 1995 Prior Obligations" means that certain lease agreement, dated as of September 1, 1995, by and between the Solana Beach Public Facilities Corporation and the City of Solana Beach relating to the \$1,635,000 City of Solana Beach Certificates of Participation, Series 1995 (Fire Station Refunding).

"Solana Beach 1995 Prior Obligations Trustee" means BNY Western Trust Company, as successor trustee with respect to the Solana Beach Prior Obligations.

"South Lake Tahoe Prior Lease-Purchase Agreements" the following lease-purchase agreement executed by the City of South Lake Tahoe: Municipal Lease and Option Agreement, dated November 15, 1999, by and between North County Financial Group, Inc. and the City.

"South Lake Tahoe Prior Obligations Escrow Bank" means U.S. Bank Trust National Association, as escrow bank under that certain escrow deposit and trust agreement, dated January 10, 2002, by and between the South Lake Tahoe Prior Obligations Escrow Bank and the City of South Lake Tahoe.

"South Lake Tahoe Prior Obligations" means that certain lease agreement, dated as of July 1, 1993, by and between the ABAG Finance Corporation and the City of South Lake Tahoe relating to the \$2,245,000 ABAG Finance Corporation Certificates of Participation (ABAG 31, Series B).

"South Lake Tahoe Prior Obligations Trustee" means U.S. Bank Trust National Association, as successor trustee with respect to the South Lake Tahoe Prior Obligations.

"State" means the State of California.

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

"*Term of the Lease Agreement*" means the time during which a Lease Agreement is in effect.

"*Trustee*" means Wells Fargo Bank, National Association, or any successor thereto acting as Trustee pursuant to the Indenture.

"*Written Certificate*", "*Written Request*" and "*Written Requisition*" of the Authority or the a Participant mean, respectively, a written certificate, request or requisition signed in the name of the Authority or such Participant by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

THE INDENTURE

Application of Proceeds of Sale of the Bonds

Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall (a) deposit amounts required to pay the Costs of Issuance of the Bonds in the Costs of Issuance Fund, (b) deposit in the Reserve Account the full amount of the Reserve Requirement, (c) deposit amounts required to pay the any Project Costs in the Project Fund, and (d) deposit or transfer the remaining amounts as required for the redemption or defeasance of certain prior obligations of the Participants.

Establishment and Application of Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund". The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On January 1, 2002, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Bond Fund.

Establishment and Application of Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." Within the Project Fund, the Trustee shall establish, maintain and hold in trust a separate account for each Participant designated as the "_____ Project Account," inserting in the blank the name of the Participant for whom such account is created. Amounts on deposit in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the Project, upon the receipt from time to time of Written Requisitions of each Participant seeking payment of costs of the Project allocable to such Participant which are filed with the Trustee. Each such Written Requisition shall state the person to whom payment is to be made, the amount to be paid and the purpose for which the obligation was incurred. Such payments shall be made from the Project Account created for the Participant making such request. At the Written Request of a Participant filed at any time with the Trustee, the Trustee shall close the Project Account allocable to such Participant and shall transfer all amounts tin the Indenture to the Bond Fund as a credit to the Lease Payments to be made by such Participant.

Pledge and Assignment; Bond Fund

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Lease Agreements (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Participants under the Lease Agreements.

The assignment of the Lease Agreements to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting thereunder shall be subject to the provisions of the Indenture. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

(c) All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease Agreements to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such Funds. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues

Not later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement; *provided, however,*

that only amounts received from a particular Participant may be deposited to its respective subaccount in the Reserve Account.

Application of Interest Account

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

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Reserve Account

(a) All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or the Principal Account are not sufficient for such purpose *provided, however*, that amounts in a particular subaccount in the Reserve Account may be used only to supplement insufficient amounts received from its respective Participant, and (ii) making the final payments of principal of and interest on Bonds allocable to a particular Participant on the date on which such Bonds shall be retired under the Indenture or provision made therefor pursuant to the Indenture.

(b) If, on any date, moneys on deposit in a subaccount of the Reserve Account allocable to a particular Participant, together with amounts allocable to such Participant then on deposit in the Bond Fund (based upon amounts deposited therein by such Participant), are sufficient to pay all Outstanding Bonds allocable to such Participant, including all principal thereof, and interest thereon, the Trustee shall, at the written direction of the Authority, transfer all amounts then on deposit in such subaccount of the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of the Bonds or applied to the last scheduled payment due from such Participant.

(c) Any amounts remaining in a subaccount of the Reserve Account upon payment in full of all Outstanding Bonds and all amounts then owed to the Trustee, shall be withdrawn by the Trustee and paid to the applicable Participant. Any amounts on deposit in a subaccount of the Reserve Account in excess of the Reserve Requirement shall be transferred to the Bond Fund and applied as a credit against subsequent amounts owed by such Participant.

(d) At any time, moneys on deposit in the Reserve Account may be substituted by the Authority with a letter of credit, surety bond, bond insurance policy or other form of guaranty from a financial institution, the long-term, unsecured obligations of which are rated in the highest rating category by Moody's and S&P, in an amount equal to the Reserve Requirement, upon presentation to the Trustee of such letter of credit, surety bond, bond insurance policy or other form of guaranty from a financial institution, with evidence from the Authority that such letter of credit, surety bond, bond insurance policy or other form of guaranty from a financial institution rated in the highest rating category by Moody's and S&P. Upon such substitution, the Trustee shall transfer amounts on deposit in the subaccount of the Reserve Account to the Bond Fund and applied as a credit against subsequent amounts owed by each Participant, in an amount equal to the maximum limits or principal amount, as applicable, of such letter of credit, surety bond, bond insurance policy or other form of guarantee.

Application of Redemption Fund

The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium on the Bonds to be redeemed pursuant to the Indenture; *provided, however*, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, in accordance with the Indenture.

Insurance and Condemnation Fund.

Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Leased Premises, the Trustee shall establish and maintain a separate Insurance and Condemnation Fund, to be held and applied as set forth in the Indenture.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which Written Request shall certify that the investments constitute Permitted Investments). In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (h) of the definition thereof. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Bond Fund, except that interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and except that interest or gain derived from the investment of amounts in each account of the Project Fund shall be retained therein and used for the purposes thereof. All interest or gain derived from the investment of amounts in the Reserve Account deposited in the Bond Fund shall be allocated to each Participant on a *pro rata* basis (determined by computing such amount using the same percentage as represented such Participant's percentage of the Bonds on original issuance). To the extent that any investment agreement requires the payment of fees, such fees shall be paid from available moneys in the Bond Fund. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee or its affiliates may act as sponsor, advisor or depository with respect to any Permitted Investment. To the extent that any Permitted Investment purchased by the Trustee are registrable securities such Permitted Investment shall be registered in the name of the Trustee. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

Covenants

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

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest

shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

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

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

Accounting Records. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease Agreements and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the Participants, during business hours and under reasonable circumstances.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants

Private Business Use Limitation. The Authority shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to be "private activity bonds" within the meaning of section 141(a) of the Code.

Private Loan Limitation. The Authority shall assure that no more than five percent (5%) of the proceeds of the Bonds are used, directly or indirectly, to make or finance a loan (other than loans constituting nonpurpose obligations as defined in the Code or constituting assessments) to persons other than state or local government units.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

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

Rebate of Excess Investment Earnings to United States. The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds. Payment of any amounts due under such section 148(f) shall be made by the Authority from amounts provided by the Participants under the Lease Agreements. In order to provide for the administration of this paragraph, the Authority may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the Authority may deem appropriate.

Collection of Amounts Due Under Lease Agreements. The Trustee shall promptly collect all amounts due from the Participants pursuant to the Lease Agreements. The Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights under the Indenture as assignee of the Authority and for the enforcement of all of the obligations of the Participants under the Lease Agreements. The Authority shall not amend, modify or terminate any of the terms of the Lease Agreements, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if (a) in the opinion of Bond Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Owners, or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Continuing Disclosure.

The Authority shall timely supply the information required by section 6599.1 of the California Government Code to the California Debt Advisory Commission ("CDAC"), all such information to be supplied annually and at such other time as required by said section 6599.1 on forms to be provided by CDAC or at such other time and in such other manner as shall comply with the provisions of said section 6599.1.

(b) The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Authority Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Authority Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Events of Default; Remedies on Default

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as in the Indenture expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; *provided, however,* that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within

such sixty (60) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in any Lease Agreement.

Remedies Upon Event of Default. Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, and payment of its fees and expenses, including the fees and expenses of its counsel, shall in its own name and as the Trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under, and require the Authority or the affected Participant to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Act, the affected Lease Agreement, and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the affected Lease Agreement or the Indenture, as the case may be;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Owners of Bonds; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds.

Upon the occurrence of an Event of Default, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers for the Leased Premises, and of the revenues, income, product, and profits thereof, *ex parte*, and without notice, and the Authority consents to the appointment of such receiver upon the occurrence of an Event of Default. In the case of any receivership, insolvency, bankruptcy, or other judicial proceedings affecting the Authority or the affected Participant, the Trustee shall be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have the claims of the Trustee and the Bond Owners allowed in such proceedings, without prejudice, however, to the right of any Bond Owner to file a claim on his or her own behalf; provided, the Trustee shall be entitled to compensation and reimbursement for the reasonable fees and expenses of its counsel and indemnity for its reasonable expenses and liability from the Authority, the affected Participant or the Bond Owners, as appropriate.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

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

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue. Notwithstanding any other provision of the Indenture, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Lease Agreements or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee

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

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

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or any Owner of the Series A Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence in the Indenture; and every power and remedy given by the Indenture to the Trustee or the Owners of the Series A Bonds may be exercised from time to time and as often as may be deemed expedient.

Amendments Permitted

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

The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(d) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code.

Effect of Supplemental Indenture

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

Defeasance

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

(a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, Defeasance Obligations in the necessary amount to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Participant all moneys or securities or other property held by it pursuant to the Indenture which

are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

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

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the Participants, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

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

THE SITE AND FACILITY LEASES

A Site and Facility Lease will be entered into between each Participant and the Authority. Under each Site and Facility Lease, the Participant agrees to lease its Leased Premises to the Authority for one dollar for a term continuous with the term of its Lease Agreement. Each Participant and the Authority agree that the lease to the Authority of such Participant's right, title and interest in its Leased Premises pursuant to its Site and Facility Lease serves the public purposes of such Participant by enabling such Participant to finance its portion of the Project.

THE LEASE AGREEMENTS

Lease of Leased Premises

The Authority leases its Leased Premises to each Participant, and each Participant leases its Leased Premises from the Authority, upon the terms and conditions set forth in its Lease Agreement.

Term of Lease

Each Lease Agreement shall take effect on the Closing Date, and shall end on the date specified therein. If, on such termination date, the Bonds allocable to such Participant shall not be discharged by its terms or if such Participant's Lease Payments shall have been abated at any time and for any reason, then the term of its Lease Agreement shall be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under its Lease Agreement.

Lease Payments

Obligation to Pay. In consideration of the lease of its Leased Premises from the Authority, each Participant agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of its Leased Premises during each Fiscal Year, its Lease Payments (denominated into components of principal and interest) for its Leased Premises, to be due and payable on the respective Lease Payment Dates. Any amount allocable to a Participant and held in the Bond Fund, the Interest Account or the Principal Account (other than amounts resulting from the prepayment of its Lease Payments in part but not in whole) on any Lease Payment Date shall be credited towards the Lease Payment then due and payable. Lease Payments coming due and payable from a Participant in any Fiscal Year shall be for the use of its Leased Premises for such Fiscal Year.

Effect of Prepayment. In the event that a Participant prepays all of its Lease Payments in full, together with all Additional Payments then due and payable, such Participant's obligations under its Lease Agreement shall thereupon cease and terminate, including but not limited to such Participant's obligation to pay Lease Payments. In the event that such Participant prepays its Lease Payments in part but not in whole, the principal components of the remaining Lease Payments shall be reduced either in inverse order of payment date or on a *pro rata* basis in integral multiples of \$5,000, in any event as shall correspond to the respective principal amounts of the Bonds remaining after the related redemption thereof; and the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed pursuant to the Indenture.

Rate on Overdue Payments. In the event a Participant should fail to make any of the payments required under its Lease Agreement, the payment in default shall continue as an obligation of such Participant until the amount in default shall have been fully paid, and such Participant agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest borne by any Outstanding Bond. Such interest, if received, shall be deposited in the Bond Fund.

Fair Rental Value. Lease Payments and Additional Payments coming due and payable from a Participant in each Fiscal Year shall constitute the total rental for its Leased Premises for each Fiscal Year and shall be paid by such Participant in each Fiscal Year for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, its Leased Premises during each Fiscal Year. The Authority and such Participant agree and determine that the total Lease Payments do not exceed the fair rental value of its Leased Premises. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the value of its Leased Premises, the uses and purposes which may be served by such Leased Premises and the benefits therefrom which will accrue to such Participant and the general public.

Source of Payments; Budget and Appropriation. Lease Payments shall be payable by a Participant from any source of available funds of such Participant. Each Participant covenants to take such action as may be necessary to include all Lease Payments due under its Lease Agreement in each of its budgets during the term of its Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of each Participant contained its Lease Agreement shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of such Participant to take such action and do such things as are required by law in the performance of the official duty of such official to enable such Participant to carry out and perform the covenants and agreements in its Lease Agreement agreed to be carried out and performed by such Participant. During the term of its Lease Agreement, such Participant shall furnish to the Authority and the Trustee, no later than ten days following the adoption of a budget for the current Fiscal Year, a certificate stating that its Lease Payments due in that Fiscal Year have been included in the budget approved by such Participant for such Fiscal Year.

Assignment. Each Participant understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and each Participant assents to such assignment. The Authority directs each Participant, and each Participant agrees, to pay all of its Lease Payments to the Trustee at its Office.

Security Deposit. Notwithstanding any other provision of its Lease Agreement, such Participant may on any date secure the payment of its Lease Payments for its Leased Premises in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts, including but not limited to amounts allocable to such Participant on deposit in the Bond Fund and the Reserve Fund, is either (i) sufficient to pay such Lease Payments, including the principal and interest and premium, if any, components thereof, or (ii) invested in whole or in part in Defeasance Obligations in such amount as will, in the opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under its Lease Agreement or on any optional prepayment date, as such Participant shall instruct at the time of said deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of its Lease Agreement.

Quiet Enjoyment

During the term of each Lease Agreement, the Authority shall provide each Participant with quiet use and enjoyment of its Leased Premises, and each Participant shall, during such term, peaceably and quietly have and hold and enjoy its Leased Premises without suit, trouble or hindrance from the Authority, except as expressly set forth in its Lease Agreement. The Authority will, at the request of a Participant and at such Participant's cost, join in any legal action in which such Participant asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority shall have the right to inspect all Leased Premises.

Additional Payments

In addition to its Lease Payments, each Participant shall pay when due the following Additional Payments:

(a) any fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in its Leased Premises as and when the same become due and payable;

(b) any reasonable compensation to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(c) any reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under its Lease Agreement or the Indenture; and

(d) any reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of its Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including any and all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving its Lease Agreement, its Site and Facility Lease, the Bonds, the Indenture or any of the other documents contemplated thereby, or otherwise incurred in connection with the administration thereof.

Maintenance, Utilities, Taxes and Assessments

Throughout the term of its Lease Agreement, as part of the consideration for the rental of its Leased Premises, all improvement, repair and maintenance of its Leased Premises shall be the responsibility of the appropriate Participant and such Participant shall pay for or otherwise arrange for the payment of all utility services supplied to its Leased Premises which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of its Leased Premises resulting from ordinary wear and tear or want of care on the part of such Participant or any assignee or lessee thereof. In exchange for its Lease Payments provided in its Lease Agreement, the Authority agrees to provide only its Leased Premises.

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

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

Modification of Leased Premises

Each Participant shall, at its own expense, have the right to make additions, modifications and improvements to its Leased Premises. All additions, modifications and improvements to its Leased Premises shall thereafter comprise part of its Leased Premises and be subject to the provisions of its Lease Agreement. Such additions, modifications and improvements shall not in any way damage its Leased Premises or cause its Leased Premises to be used for purposes other than those authorized under the provisions of State and federal law; and such Participant shall file with the Trustee and the Authority a Written Certificate of such Participant stating that its Leased Premises, upon completion of any additions, modifications and improvements made thereto, shall be of a value which is not substantially less than the value of its Leased Premises immediately prior to the making of such additions, modifications and improvements. Each Participant will not permit any mechanic's or other lien to be established or remain against its Leased Premises for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by such Participant; provided that if any such lien is established and such Participant shall first notify or cause to be notified the Authority of such Participant's intention to do so, such Participant may in good faith contest any lien filed or established against its Leased Premises, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of such Participant.

Insurance

Public Liability and Leased Premises Damage Insurance. Each Participant shall maintain or cause to be maintained, throughout the term of its Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of such Participant, the Authority and the Trustee, including their respective Participants, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of its Leased Premises. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by such Participant, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by such Participant. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance. Each Participant shall procure and maintain, or cause to be procured and maintained, throughout the term of its Lease Agreement, insurance against loss or damage to any structures constituting part of its Leased Premises by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the greater of (a) one hundred percent (100%) of the replacement cost of its Leased Premises, or (b) the aggregate principal amount of the Outstanding Bonds. Such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by such Participant and

may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by such Participant.

Each Participant agrees to procure and maintain, or cause to be procured and maintained, throughout the term of its Lease Agreement, insurance against earthquake loss or damage to its Leased Premises in such amounts as an independent insurance consultant shall annually determine is necessary to protect such Participant for such risk. Such insurance may be subject to a deductible clause of not to exceed ten percent (10%) for any one loss. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by such Participant. If such Participant cannot purchase such insurance on the open market from reputable insurers at reasonable cost, such Participant agrees to self-insure for such coverage.

Rental Interruption Insurance. Each Participant shall procure and maintain through the term of its Lease Agreement, rental interruption or use and occupancy insurance, if commercially available, to cover loss, total or partial, of the use of any part of its Leased Premises during the term of its Lease Agreement as a result of any of the hazards covered in the insurance required by its Lease Agreement, in an amount at least equal to two times the portion of the Reserve Requirement allocable to such Participant. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Bond Fund, and shall be credited towards the payment of its Lease Payments in the order in which such Lease Payments would otherwise come due and be payable.

Title Insurance. On or before the Closing Date such Participant shall, at its expense, (a) cause its Lease Agreement and the Site and Facility Lease, or a memorandum thereof or thereof, and a memorandum of the assignment made pursuant to the Indenture, in each case in form and substance approved by Bond Counsel, to be recorded in the office of the appropriate county recorder, and (b) obtain a CLTA policy of title insurance which insures such Participant's leasehold estate in its Leased Premises in an amount equal to the aggregate principal amount of the Bonds. All Net Proceeds received under said policy shall be deposited with the Trustee in the Redemption Fund and shall be applied to the redemption of Bonds pursuant to the Indenture.

Net Proceeds of Insurance: Form of Policies. Each policy of insurance required by its Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required under its Lease Agreement. All required insurance policies shall be provided by a commercial insurer rated "A+" by A.M. Best & Company or rated in one of the two highest rating categories by Moody's and S&P. Each Participant shall pay or cause to be paid when due the premiums for all insurance policies required by its Lease Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in its Lease Agreement, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. Each Participant shall cause to be delivered annually on or before each June 1 to the Trustee a certification, signed by a Participant Representative, stating compliance with the provisions of its Lease Agreement. The Trustee shall be entitled to rely on such certification without independent investigation. Each Participant shall have the adequacy of any insurance reserves maintained by such Participant or by a joint exercise of powers authority, if applicable, for purposes of the insurance required by its Lease Agreement reviewed at least annually, on or before each June 1, by an independent insurance consultant and shall maintain reserves in accordance with the recommendations of such consultant to the extent moneys are available for such purpose and not otherwise appropriated.

Tax Covenants

Federal Guarantee Prohibition. Each Participant agrees that it shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. Each Participant agrees that it shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

No Arbitrage. Each Participant agrees that it shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

Maintenance of Tax Exemption. Each Participant agrees that it shall take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Continuing Disclosure

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

Damage, Destruction and Eminent Domain; Abatement of Lease Payments

Application of Net Proceeds.

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of its Leased Premises by fire or other casualty shall be paid by such Participant to the Trustee and shall be deposited in the Insurance and Condemnation Fund by the Trustee and applied as set forth in the Indenture.

From Eminent Domain Award. If its Leased Premises or any portion thereof shall be taken permanently or temporarily under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Net Proceeds resulting therefrom shall be deposited in the Insurance and Condemnation Fund and applied as set forth in the Indenture.

From Title Insurance Award. The Net Proceeds of any title insurance award shall be paid to the Trustee, deposited in the Insurance and Condemnation Fund and applied as set forth in the Indenture.

Abatement of Lease Payments.

Abatement Due to Damage or Destruction. Its Lease Payments shall be abated during any period in which by reason of damage to or destruction of its Leased Premises (other than by eminent domain which is hereinafter provided for) which causes substantial interference with the use and occupancy by such Participant of its Leased Premises or any portion thereof. The amount of such abatement shall be an amount agreed upon by such Participant and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of its Leased Premises not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the

event of any such damage or destruction, its Lease Agreement shall continue in full force and effect and such Participant waives any right to terminate its Lease Agreement by virtue of any such damage and destruction. There shall be no abatement of its Lease Payments to the extent that moneys derived from any person as a result of such damage or destruction are available to pay the amount which would otherwise be abated or if there is any money available in the Bond Fund or the Reserve Account to pay the amount which would otherwise be abated.

Abatement Due to Eminent Domain. If all of its Leased Premises shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of its Lease Agreement shall cease with respect to its Leased Premises as of the day possession shall be so taken. If less than all of its Leased Premises shall be taken permanently, or if all of its Leased Premises or any part thereof shall be taken temporarily under the power of eminent domain, (a) its Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be a partial abatement of Lease Payments in an amount to be agreed upon by such Participant and the Authority such that the resulting Lease Payments for its Leased Premises represent fair consideration for the use and occupancy of the remaining usable portion of its Leased Premises.

Assignment, Leasing and Amendment

Assignment by the Authority. Certain rights of the Authority under each Lease Agreement, including the right to receive and enforce payment of Lease Payments to be made by a Participant under its Lease Agreement, have been pledged and assigned to the Trustee for the benefit of the Owners of the Bonds pursuant to the Indenture, to which pledge and assignment such Participant consents. The assignment of the Lease Agreements to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting under its Lease Agreement shall be subject to the provisions of the Indenture.

Assignment and Subleasing by such Participant. No Lease Agreement may be assigned by a Participant. Each Participant may sublease its Leased Premises or any portion thereof, but only upon satisfaction of certain conditions set forth in its Lease Agreement.

Amendment of Lease. The Leased Premises may be substituted for other property, and portions of the Leased Premises may be released, but only upon satisfaction of certain conditions set forth in its Lease Agreement.

Events of Default.

The following shall be "Events of Default" under its Lease Agreement:

(a) Failure by such Participant to pay any Lease Payment required to be paid under its Lease Agreement at the time specified in its Lease Agreement.

(b) Failure by such Participant to make any Additional Payment required under its Lease Agreement and the continuation of such failure for a period of thirty (30) days.

(c) Failure by such Participant to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to such Participant by the Authority or the Trustee; provided, however, that if in the reasonable opinion of such Participant the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if such Participant shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith shall cure such failure in a reasonable period of time.

(d) The filing by such Participant of a voluntary petition in bankruptcy, or failure by such Participant promptly to lift any execution, garnishment or attachment, or adjudication of such Participant as a bankrupt, or assignment by such Participant for the benefit of creditors, or the entry by such Participant into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to such Participant in any proceedings instituted under the provisions of applicable federal bankruptcy law, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to its Lease Agreement; provided, however, that notwithstanding anything to the contrary in its Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate its Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate its Lease Agreement or to cause the fee interest or the leasehold interest of such Participant in its Leased Premises to be sold, assigned or otherwise alienated. Each and every covenant of its Lease Agreement to be kept and performed by such Participant is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights of entry and re-entry upon its Leased Premises. Each Participant irrevocably consents to the Authority's repossession of its Leased Premises if such an Event of Default shall occur and consents to the Authority's re-letting of its Leased Premises for the account of such Participant. In the event of such default and notwithstanding any re-entry by the Authority, such Participant shall, as expressly provided in its Lease Agreement, continue to remain liable for the payment of its Lease Payments and/or damages for breach of its Lease Agreement and the performance of all conditions contained in its Lease Agreement and, in any event, such rent and/or damages shall be payable to the Authority at the time and in the manner as provided in its Lease Agreement, to wit:

(a) Each Participant agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in its Lease Agreement and shall reimburse the Authority for any deficiency arising out of the re-leasing of its Leased Premises, or, in the event the Authority is unable to re-lease its Leased Premises, then for the full amount of all Lease Payments to the end of the term of its Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments under its Lease Agreement, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of its Leased Premises or the exercise of any other remedy by the Authority.

(b) Each Participant irrevocably appoints the Authority as the agent and attorney-in-fact of such Participant to enter upon and re-lease its Leased Premises in the event of default by such Participant in the performance of any covenants contained in its Lease Agreement to be performed by such Participant and to remove all personal property whatsoever situated upon its Leased Premises to place such property in storage or other suitable place in the appropriate county, for the account of and at the expense of such Participant, and such Participant exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of its Leased Premises and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in its Lease Agreement.

(c) Each Participant waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of its Leased Premises as provided in its Lease Agreement and all claims for damages that may result from the destruction of or injury to its Leased

Premises and all claims for damages to or loss of any property belonging to such Participant that may be in or upon its Leased Premises.

(d) Each Participant agrees that the terms of its Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease its Leased Premises in the event of such re-entry without effecting a surrender of its Lease Agreement, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of its Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise.

(e) Each Participant further waives the right to any rental obtained by the Authority in excess of its Lease Payments and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing its Leased Premises.

Limitation on Remedies

Notwithstanding the foregoing, neither the Authority nor the Trustee shall exercise any remedies against its Leased Premises to the extent such remedies would generate funds which are subject to such lien and which are not available to satisfy the obligations of its Lease Agreement or the Indenture.

No Remedy Exclusive

No remedy conferred in its Lease Agreement upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall, except as expressly provided in its Lease Agreement to the contrary, be in addition to every other remedy given under its Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in its Lease Agreement it shall not be necessary to give any notice, other than such notice as may be required in its Lease Agreement or by law.

Provisions Relating to the Municipal Bond Insurance Policy and the Municipal Bond Insurer

Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there was no Municipal Bond Insurance Policy. Any provision of the Indenture expressly recognizing or granting rights in or to the Municipal Bond Insurer may not be amended in any manner which affects the rights of the Municipal Bond Insurer thereunder without the prior written consent of the Municipal Bond Insurer.

The Municipal Bond Insurer's consent shall be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any amendment, supplement or change to or modification of the Indenture or any Lease Agreement, (ii) removal of the Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) of this paragraph which requires Owner consent. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Municipal Bond Insurer shall, after payment of principal and interest then due, if any, be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture and the Municipal Bond Insurer shall also be entitled to approve all waivers of Events of Default.

In the event that the principal and/or interest due with respect to the Bonds shall be paid by the Municipal Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid, and the assignment and pledge of the trust created under the Indenture and all covenants, agreements and other obligations of the Authority to the Bond Owners shall continue to exist and shall run to the benefit of the Municipal Bond Insurer, and the Municipal Bond Insurer shall be subrogated to the rights of such Bond Owners.

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APPENDIX C
FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Association of Bay Area Governments
101 Eighth Street
Oakland, California 94607

OPINION: \$14,355,000 Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2

Members of the Authority:

We have acted as bond counsel in connection with the delivery by the Association of Bay Area Governments (the "Authority") of \$14,355,000 aggregate principal amount of the bonds of the Authority designated the "Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2" (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), and pursuant to an indenture of trust, dated as of December 1, 2001 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee, and resolutions of the governing body of the Authority adopted on May 17, 2001, September 20, 2001, and November 15, 2001. The Bonds are secured by Revenues as defined in the Indenture, including certain lease payments made by the Cities of Grass Valley, Hayward, Solana Beach and South Lake Tahoe (individually, a "Participant" and, collectively, the "Participants") under separate lease agreements, each dated as of December 1, 2001 (the "Lease Agreements"), by and between the Authority, as lessor, and each Participant, as lessee. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Participants contained in the Indenture, the Lease Agreements and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers agency and public entity duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. Each Participant is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into its respective Lease Agreement and to perform the agreements on its part contained therein. Each Lease Agreement has been duly approved by the respective Participant and constitutes the legal, valid and binding obligation of such Participant enforceable against such Participant in accordance with its terms.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Lease Agreements may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX D
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

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APPENDIX E

FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the ASSOCIATION OF BAY AREA GOVERNMENTS (the "Authority") in connection with the issuance of \$14,355,000 aggregate principal amount of Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2 (the "Bonds"). The Bonds are being issued pursuant to an indenture of trust, dated as of December 1, 2001 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Authority covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of Bond holders.
- (viii) Contingent or uncheduled redemption of Bonds.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Authority shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Trust Agreement.

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

Section 5. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association. Any Dissemination Agent may resign by providing thirty days' written notice to the Authority and the Trustee.

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

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

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

Section 8. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bond holders or any other party. The obligations of the Authority under this Section 9 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

ASSOCIATION OF BAY AREA
GOVERNMENTS

By _____
Name _____
Title _____

ACKNOWLEDGED:

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent

By _____
Name _____
Title _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE REPOSITORY
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Association of Bay Area Governments
Name of Issue: \$14,355,000 Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.09 of that certain indenture, dated as of June 1, 2001, by and between the Issuer and Wells Fargo Bank, National Association, as trustee. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

ASSOCIATION OF BAY AREA
GOVERNMENTS

By _____
Title _____

cc: Trustee

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APPENDIX F

FORM OF CITY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF _____ (the "City") in connection with the issuance of \$14,355,000 aggregate principal amount of Association of Bay Area Governments Lease Revenue Bonds, Series 2001-2 (California Capital Projects) (the "Bonds"). The Bonds are being issued pursuant to an indenture of trust, dated as of December 1, 2001 (the "Indenture"), by and between the Association of Bay Area Governments (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

"*Annual Report*" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

"*Lease Agreement*" shall mean that certain Lease Agreement, dated as of December 1, 2001, by and between the Authority and the City.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

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

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction shall cause the Dissemination Agent to, not later than six months after the end of the City's fiscal year (currently June 30), commencing with the report for the 2001 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. Not later than

fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change to the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and each State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds:

- (i) assessed valuations; and
- (ii) tax levies and collections.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to

make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the City's obligations under the Lease Agreement, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee.

Section 6. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association. Any Dissemination Agent may resign by providing thirty days' written notice to the City and the Trustee.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information

in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section 10 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF _____

By _____
Title _____

ACKNOWLEDGED:

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent

By _____
Title _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE REPOSITORY
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Association of Bay Area Governments

Name of Issue: Association of Bay Area Governments Lease Revenue Bonds, 2001 Series A

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the City of _____ (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.11 of that certain lease agreement, dated as of December 1, 2001, by and between the Issuer and the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF _____

By _____
Title _____

cc: Trustee

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APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

Book-Entry-Only System

The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to DTC Participants or the actual purchasers of the Bonds ("Beneficial Owners"), confirmation and transfer of beneficial ownership interests in the Bonds, and other Bond-related transactions by and between DTC Participants and Beneficial Owners, is based on information furnished by DTC which the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities described in this Official Statement (the "Securities"). The Securities 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 security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC 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 securities that its participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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, but Beneficial Owners are 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 Securities are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Securities with DTC and

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Securities may wish to take certain steps to augment the transmission of them to notices of significant events with respect to the Securities, such as redemptions, tenders, defaults and proposed amendments to the Security documents. Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notice to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities 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 Trustee or the Authority on payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC 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 Trustee or the Authority, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

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

The Trustee will make payments of principal of and premium, if any, and interest on the Bonds to DTC or its nominee, Cede & Co., as Owner of the Bonds. The current practice of DTC is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants or Indirect Participants to beneficial owners will be in accordance with standing instructions and customary practices, such as those which are now the case for municipal securities held in bearer form or registered in "street name" for the accounts of customers, and will be the responsibility of DTC Participants and Indirect Participants and to the responsibility of DTC, the Trustee, the Underwriter or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority and the Trustee, disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants.

The Trustee and the Authority, so long as the DTC book-entry system is used for the Bonds, will send any notice of prepayment or other notices only to DTC or its nominee. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Prepayment of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of Bonds for the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Authority or the Trustee.

NEITHER AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

The Authority and the Trustee cannot give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, redemption premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the beneficial owners or that they will do so on a timely basis or that DTC will serve and at in a manner described in this Official Statement.

DTC (or a successor securities depository) may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority. The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC (or a successor securities depository) with respect to the Bonds. The Authority undertakes no obligation to investigate matters that would enable the Authority to make such a determination.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC and

DTC's Book-Entry System has been provided by DTC, and neither the Authority nor the Trustee take any responsibility for the accuracy thereof.

The Authority and the Underwriter cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal, interest and premium, if any, with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will service and act in the manner described in this Official Statement. The Authority and the Underwriter 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 an error or delay relating thereto.



