REPORT TO MAYOR AND COUNCIL; CHAIR AND SUNNYVALE FINANCING AUTHORITY

NO: FA 09-001

Council Meeting: April 28, 2009

SUBJECT: Authorization to Issue Variable Rate Demand Refunding Certificates of Participation to Refund 2001 Certificates of Participation for Government Center Site Acquisition

REPORT IN BRIEF

Staff is recommending that the City Council and the Sunnyvale Financing Authority ("the Authority") adopt the necessary resolutions to authorize the issuance of Variable Rate Demand Refunding Certificates of Participation ("Refunding COPs") in an amount not to exceed $16.5 million. The amount of the Refunding COPs will be less if the rating agencies do not require a Debt Service Reserve for this issue. The purpose of the Refunding COPs is to refund Variable Rate Demand Certificates of Participation issued in 2001 (the "2001 COPs") to fund the purchase of the Sunnyvale Office Center property located at 505 West Olive Avenue (RTC #01-079.) The rates on the 2001 COPs had been extremely favorable since issuance. However, in 2008 the national rating agencies began downgrading municipal bond insurers, which caused the rates on insured variable rate demand obligations, including the 2001 COPs, to increase as investors were reluctant to invest in insured bonds. Refunding the 2001 COPs without bond insurance, but with a letter of credit from Union Bank, will result in substantially lower interest rates on the Refunding COPs.

BACKGROUND

The 2001 COPs were issued in April 2001 to reimburse the City for the costs of acquiring the Sunnyvale Office Center property, which was identified as the potential site of a future government center (the "Site"). The 2001 COPs were issued as variable rate demand obligations ("VRDOs") insured by Ambac Assurance Corporation with liquidity provided by Wachovia Bank (formerly "First Union Bank.") The rates on the 2001 COPs are reset weekly by E.J. De La Rosa & Co. ("De La Rosa") as remarketing agent. If the COP holders do not wish to own the 2001 COPs, they may tender them back to the trustee. De La Rosa has the responsibility to remarket tendered 2001 COPs to new holders.

At issuance, Standard & Poor's assigned the 2001 COPs a long-term rating of "AAA" and a short-term rating of A-1 based on the ratings of Ambac, the bond insurer. From issuance through December 2007, the rates on the 2001 COPs ranged from less than 1% to just over 3%. These rates were among the lowest available in the municipal bond market.

In January 2008, the rating agencies began the process of downgrading each of the seven municipal bond insurers that previously had enjoyed "Aaa/AAA" ratings, primarily due to the exposure of the bond insurers to exotic securities such as collateralized debt obligations. Ambac is now rated Baa1/A by Moody's and Standard &Poor's, with the potential of further downgrades.

The downgrades of the major bond insurers have caused the rates on all insured VRDOs, such as the 2001 COPs, to increase substantially compared with VRDOs that are secured by letters of credit from a strong bank.

At first, the increase in interest rates on the 2001 COPs did not provide clear justification for a refunding. In September 2008, however, the market for Ambac-insured VRDOs changed substantially as a result of a number of factors: the Lehman Brothers bankruptcy, disruptions in the short-term market, and the announcement of further Ambac downgrades by Moody's and Standard & Poor's. In November 2008, the rating downgrades occurred and rates on the 2001 COPs increased to 8%.

In October 2008, Council authorized an amendment to the City's Investment and Cash Management Policy to allow investments in municipal bonds, including our own 2001 COPs. Following our purchase of the major portion of the 2001 COPs, the rate declined to 3.50%. By comparison, interest rates on California VRDOs backed by bank letters of credit have traded in the 0.20% to 0.50% range.

While a refunding of the 2001 COPs became clearly economical in late September 2008, at that time the City was not able to procure a bank letter of credit needed to implement a refunding. Union Bank has since agreed to provide a letter of credit.

DISCUSSION

The Need to Refund the 2001 COPs

As discussed above, the City has purchased the major portion of the 2001 COPs for our own investment portfolio to mitigate the impact of very high interest rates on the 2001 COPs. However, federal tax law limits the City's ability to hold the 2001 COPs beyond December 31, 2009. Therefore, it is necessary to complete the refunding before that date.

Proposed Financing Approach

The proposed financing approach will entail the issuance of variable rate demand refunding certificates of participation backed by an irrevocable direct draw letter of credit (the "Letter of Credit") from Union Bank. The Bank of New York Mellon Trust Company, N.A. (the "Trustee") will draw on the Letter of Credit each month to pay holders of the Refunding COPs. City lease payments

will reimburse Union Bank for monthly Letter of Credit draws. As with the 2001 COPs, such lease payments will represent an obligation of the General Fund backed by the City's covenant to include in its annual budget an amount sufficient to make such lease payments. Staff expects the Refunding COPs to receive a long-term rating of "Aaa/AAA" from Moody's and Standard & Poor's based on the joint credit of the City and Union Bank. The Refunding COPs also are expected to receive short-term ratings of VMIG-1/A-1.

As with the 2001 COPs, the Refunding COPs will be sold to De La Rosa on a negotiated basis. De La Rosa will also serve as remarketing agent and will reset the interest rate on the Refunding COPs each week. Based on current market conditions, it is expected that the initial rate on the Refunding COPs will be approximately 0.30% to 0.50%. Over the past 15 years, VRDOs have averaged approximately 2.82%.

Staff considers the recommended approach for the Refunding COPs to be more economically efficient than the alternative of issuing fixed rate Refunding COPs. The market for long-term fixed rate COPs is currently unattractive. Since the Lehman Bankruptcy in September, investors have shunned most forms of fixed income securities, except U.S. Treasury bonds and essential purpose utility bonds. Despite the City's strong underlying credit, a fixed-rate certificate of participation transaction secured by the Site would not fall into this category. In the current market, a fixed rate tax-exempt borrowing cost is estimated at approximately 5.5%.

Risks

This section discusses the principal risks associated with the proposed Refunding COPs.

Interest Rate Risk

Over the past 15 years, the average rate on VRDOs has approximated 2.82%. This average rate is significantly lower than the fixed rate that the City otherwise would experience in the current market place. While the City recently experienced interest rates of 8% on the 2001 COPs, that high rate stemmed from the credit deterioration of Ambac; rates on letter of credit-backed VRDOs were less than 0.50% at the time.

Rate Volatility

Variable interest rates will fluctuate, whereas with a fixed rate issuance, the rate will be known throughout the transaction. For budgetary purposes, as with the 2001 COPs, staff will budget at an assumed fixed rate that will be higher than the variable rate anticipated for the fiscal year. The City also retains the ability to convert to fixed rates on the COPs with no penalty at any time.

Bank Risks

There are two types of bank risks. The first is a risk of credit deterioration that could lead to significantly higher interest rates. While there is no guarantee that Union Bank will maintain its current "A1/AA-" long-term ratings from Moody's and Standard & Poor's, it has, to date, avoided the downgrades affecting major national banks such as Citi, Bank of America and JP Morgan due to its very conservative lending practices. Because the Refunding COPs will also be rated on the basis of the City's credit, a reduction in the Union Bank rating should have a lesser effect on the resulting interest rates.

The second risk is the risk that Union Bank will not renew the Letter of Credit at the initial expiration date (in 2012) or it will renew it at a higher annual cost to the City. Under the terms of the Reimbursement Agreement, the City can seek a renewal at the end of each anniversary date of the Letter of Credit. Therefore, if Union Bank chooses not to extend the Letter of Credit after the first or second anniversary date, the City will have significant lead time to plan an alternative course of action (e.g,. fix the interest rate or seek a letter of credit from another bank). If Union Bank chooses to renew its Letter of Credit but at a higher cost, the City's all-in borrowing rate will increase. However, it likely would not exceed rates in the then-current fixed rate market.

Conclusion

Staff believes that these risks are manageable and are outweighed by the significant interest rate benefit associated with today's extremely low variable rates.

Documents to be Approved by City and Sunnyvale Financing Authority

In the Refunding COPs transaction, the City will lease the Site to the Authority under the Site Lease and the Authority will lease the Site back to the City under the Lease Agreement. Lease payments made by the City under the Site Lease will be assigned to the Trustee for the benefit of Union Bank and the Refunding COP holders.

City Resolution

Staff is recommending that the City Council adopt a resolution which authorizes the issuance of the Refunding COPs and approves various lease financing documents, a trust indenture, an official statement and other documents.

Financing Authority Resolution

Staff is recommending that the Authority Board adopt a resolution which approves and authorizes the execution of various lease financing documents, a trust indenture and assignment agreement.

Site Lease
Under the Site Lease, the City will lease the Site to the Authority in consideration of receiving the proceeds of the Refunding COPs. Those proceeds will be deposited with the Trustee to refund in full the 2001 COPs.

Lease Agreement
Under the Lease Agreement, the Authority will lease the Site back to the City in consideration of the City's making monthly lease payments. The monthly lease payments will be in amounts sufficient to pay principal and interest on the Refunding COPs.

Assignment Agreement
The Authority and Trustee are parties to the Assignment Agreement. Under the Assignment Agreement, the Authority will assign to the Trustee lease payments and other rights under the Lease Agreement.

Trust Agreement
The City, Authority and Trustee are parties to the Trust Agreement. The Trust Agreement provides the terms for the execution and delivery of the Refunding COPs, the use of proceeds and establishment of funds, and the rights of the Trustee in the event of a default.

Reimbursement Agreement
The City and Union Bank are parties to the Reimbursement Agreement. The Reimbursement Agreement provides the terms under which the Letter of Credit will be issued, including Letter of Credit fees and covenants of the City.

Official Statement
The Official Statement is the offering document under which the Refunding COPs will be marketed and sold. The Official Statement describes the terms of the Refunding COPs, the security features, key provisions of legal documents and relevant information about the City. A Copy of the draft Official Statement is Attachment D of this report to Council.

Certificate Purchase Contract
The City and De La Rosa are parties to the Certificate Purchase Contract. The Certificate Purchase Contract sets forth the terms under which De La Rosa will purchase the Refunding COPs, including various conditions for closing.

Remarketing Agreement
The City and De La Rosa are parties to the Remarketing Agreement. The Remarketing Agreement sets forth De La Rosa's responsibilities associated with remarketing the Refunding COPs and resetting the interest rate.

Contracts

Selection of Union Bank

Due to current market conditions, the City did not employ a competitive process for selecting Union Bank. Most traditional letter of credit providers have retreated from the market. Those banks that have not – primarily domestic and Canadian banks – are providing letters of credit only to their best customers or in connection with large high-profile transactions. Union Bank agreed to provide the Letter of Credit because it considers the City to be an important client. (Union Bank has been the City's principal bank for a number of years.) Moreover, Union Bank is one of the only banks that prefer smaller transactions. Based on a recent survey performed by Ross Financial, the City's financial advisor, a fee of 1.00% per year for a three-year letter of credit is very favorable. The norm is a higher fee for a shorter term facility (364 days).

Bond Counsel and Disclosure Counsel

Staff recommends the law firm of Jones Hall to serve as Bond Counsel and Disclosure Counsel. Jones Hall is a leading bond counsel firm in the State and serves local governments throughout California. The firm has served as bond counsel on multiple transactions for the City, including the 2001 COPs.

Bond Counsel is responsible for drafting legal documents and ensuring that the Refunding COPs are issued in compliance with all applicable state and federal laws. They will deliver an opinion that the Refunding COPs are legally issued and that they qualify for tax-exemption under IRS regulations. In addition, Jones Hall will serve in the role of Disclosure Counsel. In this role, it will draft the Official Statement and provide an opinion that the Official Statement is accurate in all material respects (Attachment C).

Jones Hall proposes an aggregate fee not to exceed $86,950 plus out-of-pocket expenses not to exceed $5,000 for both bond counsel services and disclosure counsel services. This fee will be paid from the proceeds of the Refunding COPs and is contingent on their sale.

Financial Advisor

Staff has contracted with Ross Financial to serve as Financial Advisor for the proposed Refunding COPs under the City Manager's contracting authority. Ross Financial is a San Francisco-based financial advisory firm that is focused solely on municipal bonds. Its principal, Peter Ross, has more than thirty years experience in the municipal bond market, having served in the capacities of bond counsel, underwriter and financial advisor over the course of his career. Ross Financial has served as Financial Advisor in connection with several utility transactions for the City since 2001. In addition, the firm performs work for many prominent municipalities in California, including the Cities of San Jose, San Francisco, Burbank, the Santa Clara Valley

Transportation Authority, SamTrans and Peninsula Corridor Joint Powers Board.

The Financial Advisor is responsible for working with staff in developing the financing structure, securing the letter of credit bank, reviewing and commenting on legal and disclosure documents, managing the rating process and overseeing the issuance process.

The fee for Ross Financial will be $55,000 plus expenses (not to exceed $1,500). As with Bond Counsel services, this fee will be paid from the proceeds of the Refunding COPs and is contingent upon their sale and closing.

Underwriter and Remarketing Agent

Staff recommends the firm of De La Rosa & Co. to serve as the underwriter of and remarketing agent for the Refunding COPs. De la Rosa served as underwriter and remarketing agent for the 2001 COPs and several other City financings. De La Rosa has offices in San Francisco and Los Angeles and participates in numerous bond issues for public agencies throughout California.

De La Rosa has agreed to underwrite the Refunding COPs for an underwriter's discount of not to exceed 0.75% of the Refunding COP par. This would equal $123,750 at the $16.5 million issuance amount. De La Rosa has agreed to serve in the role of remarketing agent for an annual fee of 0.10% (ten basis points) based on the outstanding amount of Refunding COPs.

FISCAL IMPACT

The proposed Refunding COPs will refund the COPs previously issued in 2001 to purchase the Sunnyvale Office Center property. In the current market, the variable rate approach offers interest rates that are significantly lower than a fixed rate approach. As a result, the annual debt service obligations associated with the variable rate approach are expected to be significantly lower. The table below compares the two alternatives:

	Fixed Rate	Variable Rate (Recommended)
Par Size	$15,800,000	$14,755,000**
Issuance Costs	$300,000	$300,000
Annual Borrowing Costs	5.45%	3.86%*
Estimated Annual Debt Service	$1,220,000	$1,010,000

* Includes letter of credit and remarketing fees

**Par size does not include the debt service reserve, which may be required by the rating agencies. The interest earnings on this reserve are used to pay debt service and so there is no net effect on the annual debt service cost.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site.

ALTERNATIVES

1. Adopt the City and Sunnyvale Financing Authority resolutions approving the refunding of the 2001 COPs, the execution of certain lease financing documents, authorizing and directing the sale of the Refunding COPs, approving an Official Statement and authorizing and directing certain related actions.

2. Do not authorize the City and Sunnyvale Financing Authority resolutions and direct staff to return with an alternative approach of an issuance of fixed rate Refunding COPs.

RECOMMENDATION

Staff recommends Alternative 1, Adopt the City and Sunnyvale Financing Authority resolutions approving the refunding of the 2001 COPs, the execution of certain lease financing documents, authorizing and directing the sale of the Refunding COPs, approving an Official Statement and authorizing and directing certain related actions.

Reviewed by:

Mary J. Bradley, Director of Finance and Financing Authority Treasurer
Prepared by: Therese Balbo, Finance Manager

Approved by:

Gary M. Luebbers
City Manager and Financing Authority Executive Director

Attachments

A. A Resolution of the City of Sunnyvale Approving, Authorizing, and Directing the Refunding of Prior Certificates of Participation Financing, the Execution of Certain Lease Financing Documents, Authorizing and directing the Sale of Refunding Certificates of Participation, Approving an Official Statement, and Authorizing and Directing Certain Actions with Respect Thereto

B. A Resolution of the Sunnyvale Financing Authority Approving Lease Financing Documents and Trust Agreement in Connection with the Execution and Delivery of Certificates of Participation to Refinance Government Center Site Acquisition Project

C. Transmittal Letter from Disclosure Counsel Regarding the Official Statement

D. Official Statement

Attachment A

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUNNYVALE APPROVING, AUTHORIZING AND DIRECTING THE REFUNDING OF PRIOR CERTIFICATE OF PARTICIPATION FINANCING, THE EXECUTION OF CERTAIN LEASE FINANCING DOCUMENTS, AUTHORIZING AND DIRECTING THE SALE OF REFUNDING CERTIFICATES OF PARTICIPATION, APPROVING AN OFFICIAL STATEMENT, AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

WHEREAS, the City has previously caused the execution and delivery of Certificates of Participation (Government Center Site Acquisition Project) dated April 5, 2001 and executed and delivered in the original principal amount of $18,710,000 (the "2001 Certificates"), pursuant to a Trust Agreement, dated as of April 1, 2001, between U.S. Trust Company, N.A., as prior trustee for the 2001 Certificates (the "2001 Trustee"), the Authority and the City (the "2001 Trust Agreement"); and

WHEREAS, the City has determined that it is in the best interests of the City at this time to provide for the refinancing of the 2001 Certificates; and

WHEREAS, in order to provide funds for such purpose, the City will lease to the Authority, and the Authority will lease from the City the office complex located at 505 West Olive Avenue in the City, which is intended to be used as the site of a new governmental center, and described in Exhibit A to the Site Lease (the "Leased Property") pursuant to a Site Lease, dated as of May 1, 2009, between the Authority and the City (the "Site Lease"); and

WHEREAS, the Authority will sublease the Leased Property back to the City pursuant to that certain Lease Agreement, dated as of May 1, 2009, by and between the Authority, as sublessor, and the City, as sublessee (the "Lease" or "Lease Agreement"); and

WHEREAS, for such purposes the Authority proposes to assign and transfer to The Bank of New York Mellon Trust Company, N.A., as successor to the 2001 Trustee (the "Trustee"), certain of its rights under the Lease, and in consideration of such assignment and the execution of a Trust Agreement, dated as of May 1, 2009, among the Trustee, the City and the Authority (the "Trust Agreement"), the Trustee will execute and deliver Variable Rate Demand Refunding Certificates of Participation, Series 2009A (Government Center Site Acquisition Project) (the "2009 Certificates") in the aggregate principal amount of $16,500,000, each evidencing a direct, undivided fractional interest in the Lease Payments to be made by the City under the Lease;

WHEREAS, Union Bank, N.A. (the "Bank") will issue an irrevocable, direct pay letter of credit (the "Letter of Credit") to provide credit and liquidity support for the 2009 Certificates; and

WHEREAS, the Letter of Credit will be issued pursuant to a Reimbursement Agreement, dated as of May 1, 2009, by and between the City and the Bank (the "Reimbursement Agreement"); and

WHEREAS, pursuant to the City's authorization, Jones Hall, A Professional Law Corporation, as bond and disclosure counsel to the City, has prepared and presented to the City a form of an official statement containing information material to the offering and sale of the 2009 Certificates described below (the "Official Statement"); and

WHEREAS, the documents below specified have been filed with the City, and the members of the City Council, with the aid of its staff, have reviewed said documents;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SUNNYVALE THAT:

SECTION 1. The below-enumerated documents be and are hereby approved, and the City Manager, and Director of Finance are hereby separately authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the City Clerk is hereby authorized and directed to attest to such official's signature:

(a) A site lease, between the City as lessor and the Authority, as lessee, whereby the City will lease the Leased Property to the Authority; and

(b) A lease agreement, between the Authority, as lessor, and the City, as lessee (the "Lease Agreement"), relating to the Leased Property, so long as the term of the Lease Agreement does not extend beyond April 1, 2031 (except for extensions in the case of default), and so long as the principal amount of the Lease Agreement does not exceed $16,500,000; and

(c) A trust agreement, by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the execution and delivery of the 2009 Certificates for the purpose of refinancing the 2001 Certificates;

(d) A Reimbursement Agreement, by and between the City and the Bank, pursuant to which the Bank will issue the Letter of Credit.

SECTION 2. E.J. De La Rosa & Co., Inc. (the "Underwriter"), is hereby appointed as the underwriting and remarketing firm to purchase and act as remarketing agent for the 2009 Certificates. The City Manager and Finance Director are hereby separately authorized to execute a Certificate Purchase Agreement and Remarketing Agreement, both between the City and the Underwriter, in the forms on file with the City Clerk, so long as the principal amount of the 2009 Certificates does not exceed $16,500,000, so long as the Underwriter's discount on the purchase price of the 2009 Certificates does not exceed three-quarters of one percent (.75%), and so long as the initial annual remarketing fee of the Remarketing Agent under the Remarketing Agreement, does not exceed ten basis points (.10%) of the Outstanding 2009 Certificates.

SECTION 3. The City Manager, Director of Finance, City Clerk and other officials of the City are hereby separately authorized and directed to execute such other agreements, documents and certificates, including termination agreements, as may be necessary to effect the purposes of this resolution and the lease financing herein authorized. Whenever in this resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

SECTION 4. To the best of the City's knowledge, information and belief, the Official Statement contains no untrue statement of a material fact with respect to the City or omits to state a material fact with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made.

SECTION 5. The Official Statement is approved for distribution in connection with the offering and sale of the Certificates of Participation.

SECTION 6. The City Manager, and Director of Finance are separately authorized to approve corrections and additions to the Official Statement by supplement or amendment thereto, or otherwise as appropriate, provided that any such corrections or additions shall be necessary to cause the information contained therein to conform with facts material to the Certificates of Participation, or to the proceedings of the City or such corrections or additions are in form rather than in substance.

SECTION 7. The City Council hereby authorizes the City Manager and Director of Finance to approve, and deem nearly final within the meaning of Rule 15C2-12 of the Securities Exchange Act of 1934, the Official Statement. The City Manager and Finance Director are hereby separately authorized to execute an appropriate certificate stating the City Council's determination that the Official Statement has been deemed nearly final within the meaning of said Rule.

SECTION 8. The City Council hereby approves the engagement for bond counsel and disclosure counsel services in connection with the 2009 Certificates, with the firm of Jones Hall, A Professional Law Corporation, pursuant to the Agreement for Legal Services on file with the City Clerk. The City Council hereby authorizes the City Manager to execute the Agreement for Legal Services on behalf of the City.

SECTION 9. The City Manager, and Director of Finance are separately authorized and directed to execute a statement that the facts contained in the Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Certificates of Participation, true and correct in all material respects and that the Official Statement did not, on the date of sale of the Certificates of Participation, and does not, as of the date of delivery of the Certificates of Participation, contain any untrue statement of a material fact with respect to the City or omit to state material facts with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. The City Manager or Finance Director shall take such further actions prior to the signing of the Official Statement as are deemed necessary or appropriate to verify the accuracy thereof.

Adopted by the City Council at a regular meeting held on _____, 2009, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

_____

City Clerk
(SEAL)

APPROVED:

_____

Mayor

APPROVED AS TO FORM AND LEGALITY:

_____

David E. Kahn, City Attorney

Attachment B

RESOLUTION NO. _____-FA

A RESOLUTION OF THE SUNNYVALE FINANCING AUTHORITY APPROVING LEASE FINANCING DOCUMENTS AND TRUST AGREEMENT IN CONNECTION WITH THE EXECUTION AND DELIVERY OF CERTIFICATES OF PARTICIPATION TO REFINANCE GOVERNMENT CENTER SITE ACQUISITION PROJECT

WHEREAS, the Authority is a joint exercise of powers agency, duly established and authorized to transact business and exercise powers under and pursuant to the provisions of Section 6500 of the California Government Code (the "Joint Exercise of Powers Law"), including the power to lease real property for public capital improvements; and

WHEREAS, the City of Sunnyvale (the "City") has previously caused the execution and delivery of Certificates of Participation (Government Center Site Acquisition Leased Property) dated April 5, 2001 and executed and delivered in the original principal amount of $18,710,000 (the “2001 Certificates”), pursuant to a Trust Agreement, dated as of April 1, 2001, between U.S. Trust Company, N.A., as prior trustee for the 2001 Certificates (the “2001 Trustee”), the Authority and the City (the “2001 Trust Agreement”); and

WHEREAS, the City has determined that it is in the best interests of the City at this time to provide for the refinancing of the 2001 Certificates; and

WHEREAS, in order to provide funds for such purpose, the City will lease to the Authority, and the Authority will lease from the City the office complex located at 505 West Olive Avenue in the City, which is intended to be used as a new governmental center, and described in Exhibit A to the Site Lease (the "Leased Property") pursuant to a Site Lease, dated as of May 1, 2009, between the Authority and the City (the "Site Lease"); and

WHEREAS, the Authority will sublease the Leased Property back to the City pursuant to that certain Lease Agreement, dated as of May 1, 2009, by and between the Authority, as sublessor, and the City, as sublessee (the “Lease” or "Lease Agreement"); and

WHEREAS, for such purposes the Authority proposes to assign and transfer to The Bank of New York Mellon Trust Company, N.A., as successor trustee to the 2001 Trustee (the “Trustee”), certain of its rights under the Lease, and in consideration of such assignment and the execution of a Trust Agreement, dated as of May 1, 2009, among the Trustee, the City and the Authority (the “Trust Agreement”), the Trustee will execute and deliver Variable Rate Demand Refunding Certificates of Participation, Series 2009A (Government Center Site Acquisition Project) (the “2009 Certificates”) in the aggregate principal amount of $16,500,000, each evidencing a direct, undivided fractional interest in the Lease Payments to be made by the City under the Lease;

WHEREAS, Union Bank, N.A. (the “Bank”) will issue an irrevocable direct pay letter of credit (the “Letter of Credit”) to provide credit and liquidity support for the 2009 Certificates; and

WHEREAS, the Letter of Credit will be issued pursuant to a Reimbursement Agreement, dated as of May 1, 2009, by and between the City and the Bank (the "Reimbursement Agreement"); and

WHEREAS, the documents below specified have been filed with the Authority, and the members of the Authority, with the aid of its staff, have reviewed said documents;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SUNNYVALE FINANCING AUTHORITY AS FOLLOWS:

1. The below-enumerated documents, in substantially the form on file with the Secretary of the Authority, be and are hereby approved, and the Treasurer is hereby authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the Secretary is hereby authorized and directed to attest to such official's signature:

(a) A site lease, between the City, as lessor and the Authority, as lessee, whereby the City will lease the Leased Property to the Authority; and

(b) A lease agreement, by and between the Authority, as sublessor, and the City, as sublessee, under which the City will agree to make lease payments for the Leased Property;

(c) A trust agreement, by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., relating to the execution and delivery of the 2009 Certificates; and

(d) An assignment agreement, by and between the Authority and the Trustee, pursuant to which the Authority will assign certain of its rights under the Lease Agreement, including its right to receive lease payments thereunder, to the Trustee.

2. The Executive Director, Treasurer, Secretary, and all other appropriate officials of the Authority, are hereby authorized and directed to execute such other agreements, documents and certificates, including termination agreements, as may be necessary to effect the purposes of this resolution and the lease financing herein authorized. Whenever in this resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

3. This Resolution shall take effect upon its passage and adoption.

Adopted by the Sunnyvale Financing Authority at a regular meeting held on _____, 2009, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

_____
Clerk, Financing Authority
(SEAL)

APPROVED:

_____
Chair, Financing Authority

APPROVED AS TO FORM AND LEGALITY:

_____
David E. Kahn, Financing Authority Counsel

JONES HALL

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April 21, 2009

Members of the City Council
City of Sunnyvale

Members of the Board of Directors
Sunnyvale Financing Authority

Re: Sunnyvale Financing Authority
Variable Rate Demand Refunding Certificates of Participation, Series 2009A
(Government Center Site Acquisition Project)

Ladies and Gentlemen:

In connection with proposed execution and delivery of the Certificates of Participation captioned above (the "COPs") by the Sunnyvale Financing Authority, an Official Statement and other documents will be presented to your body, in its capacity both as City Council and as the Board of Directors of the Authority, for your consideration and approval.

The purpose of the COPs is to refinance the Authority's outstanding certificates of participation that were issued in 2001 to finance the acquisition of the office complex located 505 West Olive Avenue. All of the proceeds will be used to prepay and refund the existing certificates of participation, and to pay issuance costs. These COPs, like the 2001 certificates, will be issued with a variable interest rate, initially in a weekly interest rate mode.

The Official Statement for the COPs is the most important document for the members of the Council to review. The Official Statement discloses information with respect to, among other things,

(i) the estimated sources and uses of funds relating to the COPs,

(ii) the purposes for which the proceeds of the COPs will be used,

(iii) the terms relating to the COPs (interest rate modes, redemption terms, etc.),

(iv) the security for repayment of the COPs (the lease payments to be paid by the City to the Authority, which will be payable from the general fund of the City), and

(v) information regarding the City's finances.

The members of the City's financing team have participated in the preparation and review of the Official Statement and the other documents and provided their input and comments, where applicable, in order that the documents comply with applicable securities laws requirements. The securities laws require that a Official Statement (i) not contain any misleading information and (ii) not omit any material information. While it is important that the City's staff members and the financing team have assisted in the preparation and review of the Official Statement, the Official Statement is the City's document, and ultimate responsibility for the Official Statements rests with the City Council and the Authority Board.

The Securities and Exchange Commission has emphasized the obligations of public officials to review the Official Statements prepared for their bond issues. In a written report following the Orange County bankruptcy, the SEC stated in a report that "public officials of the issuer who have ultimate authority to approve the issuance of securities and related disclosure documents have responsibilities under the federal securities laws as well. In authorizing the issuance of securities and related disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading." While the members of the financing team have discussed a range of topics relating to this financing, there is the possibility that, as elected officials, you might be aware of something, or have a different perspective on something, that should be considered and disclosed in the Official Statement.

Some of the questions members of the City Council should ask themselves in reviewing the Official Statement include:

1. Is there information about the City or its financial condition that is not disclosed in the Official Statement but would be important for an investor to know before purchasing the COPs?

2. Is there any pending or threatened litigation against the City that could have a negative impact on its finances?

3. Are there any circumstances that exist or that are now unfolding that could place a demand on the finances of the City, or create budget difficulties for the City, that are not described in the Official Statement and that should be included before the Official Statement is finalized?

Since you have a different perspective and knowledge base than members of the financing team, it is important that you review the Official Statement and that your input and questions be considered in finalizing the documents. The City's staff and the financing team are available to review and respond to questions and comments you may have with respect to information included in the Official Statement. Please note that the proposed resolutions approving the Official Statement delegate authority to the City staff to make changes to the Official Statement following approval by your Council but before the Official Statement is printed and distributed to investors.

If you have any questions or suggestions, please do not hesitate to contact me at 415-391-5780.

Respectfully submitted,

/s/ Scott R. Ferguson
JONES HALL,
A Professional Law Corporation

NEW ISSUE -- FULL BOOK-ENTRY

SHORT-TERM RATING: Standard & Poor's: "___"
Moody's: "___"
LONG-TERM RATING: Standard & Poor's: "___"
Moody's: "___"
(See "RATINGS")

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates 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. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$_____
Variable Rate Demand
Refunding Certificates of Participation, Series 2009A
(Government Center Site Acquisition Project)
Evidencing and Representing Proportionate Interests of the Registered Owners Thereof in Installment Payments to be made by the CITY OF SUNNYVALE to the SUNNYVALE FINANCING AUTHORITY

Dated: Date of Delivery **Price: 100%** **CUSIP: _____** **Due: April 1, 2031**

Purposes. The captioned certificates of participation (the "**Certificates**") are being executed and delivered by the Sunnyvale Financing Authority (the "**Authority**") to (a) refund in full certain certificates of participation originally executed and delivered in 2001 to finance a portion of the cost of acquiring an improved parcel of property located in the City of Sunnyvale (the "**City**"), and (b) to pay costs of the execution and delivery of the Certificates. See "FINANCING PLAN – Refunding Plan" and "– Estimated Sources and Uses of Funds."

Security. The Certificates evidence direct, undivided fractional interests of the owners thereof in Lease Payments to be made by the City for the use and occupancy of certain real property and improvements under a Lease Agreement, dated as of May 1, 2009 (the "**Lease Agreement**"), between the City and the Authority. The Lease Payments will be payable from any source of available funds of the City. The City is required under the Lease Agreement to take such action as may be necessary to include all Lease Payments coming due in each of its annual budgets during the term of the Lease and to make the necessary annual appropriations for all such Lease Payments. The Lease Payments payable under the Lease Agreement will comprise the interest and principal represented by the Certificates. The Certificates will be secured under a Trust Agreement dated as of May 1, 2009, among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the "**Trustee**"). Under an Assignment Agreement dated as of May 1, 2009, between the Authority and the Trustee, the Lease Payments will be irrevocably assigned to the Trustee for the benefit of the Owners of the Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

The initial Remarketing Agent for the Certificates under the Trust Agreement will be E.J. De La Rosa & Co., Inc.

Interest. The Certificates will initially bear interest at a Weekly Interest Rate as determined by the Remarketing Agent and are payable on the first Business Day of each month, commencing June 1, 2009. The interest rate with respect to the Certificates may be converted from time to time in accordance with the Trust Agreement to a Daily Interest Rate, Weekly Interest Rate, Certificate Interest Term Rate or Long-Term Interest Rate (each an "Interest Rate Mode"), and if the interest rate is so adjusted, the Certificates will be subject to mandatory tender for purchase, as described in this Official Statement. See "THE CERTIFICATES."

THIS OFFICIAL STATEMENT DESCRIBES THE CERTIFICATES ONLY DURING THE PERIOD THE CERTIFICATES BEAR INTEREST AT A WEEKLY INTEREST RATE, A DAILY INTEREST RATE OR A CERTIFICATE INTEREST TERM RATE, AND ARE SECURED BY THE LETTER OF CREDIT. INVESTORS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT IF THE INTEREST RATE ON THE CERTIFICATES IS ADJUSTED TO ANY OTHER MODE OR IF THE CERTIFICATES ARE NO LONGER SECURED BY THE LETTER OF CREDIT.

Book-Entry Only. When executed and delivered, the Certificates will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. Beneficial owners of Certificates will not receive physical certificates representing the Certificates purchased, but will receive a credit balance on the books of the nominees of such purchasers who are participants of DTC. The Certificates will not be transferable or exchangeable, except for transfer to another nominee of DTC as described in this Official Statement. See "THE CERTIFICATES – Book-Entry Only System" and "APPENDIX F – Book-Entry Only System."

Payments. Principal, premium, if any, and interest due with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit those payments to its participants for subsequent disbursement to the beneficial owners of the Certificates as described in this Official Statement. See "THE CERTIFICATES – Book-Entry Only System" and "APPENDIX F – Book-Entry Only System."

Prepayment and Mandatory Tender. The Certificates are subject to optional prepayment, mandatory prepayment from net proceeds of insurance or condemnation and mandatory sinking fund prepayment prior to their maturity, and to optional tender and mandatory tender prior to maturity. See "THE CERTIFICATES – Prepayment of Certificates, "– Purchase of Certificates at the Option of Owner" and "– Mandatory Tender of Certificates."

Limited Obligation. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES." See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth in this Official Statement, in evaluating the investment quality of the Certificates.

Letter of Credit. Payment of the principal of and interest with respect to, and purchase price of, the Certificates will initially have the benefit of an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by Union Bank, N.A. (the "**Bank**") as the initial Credit Facility under the Trust Agreement. The initial expiration date of the Letter of Credit is _____, 20__, as extended or earlier terminated prior thereto as described herein. See "THE BANK" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

UNION BANK OF CALIFORNIA

This cover page contains information for quick reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Certificates are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the City by Jones Hall, A Professional Law Corporation, San

Francisco, California, as Disclosure Counsel, and by the City Attorney, and for the Underwriter by Hawkins Delafield & Wood LLP, as its counsel. It is anticipated that the Certificates in book-entry form will be available for delivery to Cede & Co., as nominee of DTC, on or about May ___, 2009.

DE LA ROSA & CO.
INVESTMENT BANKERS

The date of this Official Statement is: _____, 2009

† Copyright 2009, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City, the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Certificates other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, create any implication that there has been no change in the affairs of the City, the Authority or any other parties described in this Official Statement, or in the condition of the security for the Certificates since the date of this Official Statement.

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

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of this information.

Document References and Summaries. All references to and summaries of the Trust Agreement, Lease Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Certificates are Exempt from Securities Laws Registration. The issuance and sale of the Certificates have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

CITY OF SUNNYVALE
and SUNNYVALE FINANCING AUTHORITY

CITY COUNCIL/BOARD OF DIRECTORS

Anthony Spitaleri, *Mayor/Chair*
Christopher R. Moylan, *Vice Mayor/Vice Chair*
John N. Howe, *Councilmember/Director*
David Whittum, *Councilmember/Director*
Dean J. Chu, *Councilmember/Director*
Ron Swegles, *Councilmember/Director*
Melinda Hamilton, *Councilmember/Director*

CITY STAFF

Gary Luebbers, *City Manager*
Mary J. Bradley, *Director of Finance*
David E. Kahn, *City Attorney*

SPECIAL COUNSEL and DISCLOSURE COUNSEL
Jones Hall, A Professional Law Corporation
San Francisco, California

UNDERWRITER'S COUNSEL
Hawkins Delafield & Wood LLP
San Francisco, California

FINANCIAL ADVISOR
Ross Financial
San Francisco, California

TRUSTEE
The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

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OFFICIAL STATEMENT

$_____
Variable Rate Demand
Refunding Certificates of Participation, Series 2009A
(Government Center Site Acquisition Project)
Evidencing and Representing Proportionate Interests of the
Registered Owners Thereof in Installment Payments
to be made by the
CITY OF SUNNYVALE
to the
SUNNYVALE FINANCING AUTHORITY

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (the **"Official Statement"**), provides certain information concerning the sale and delivery of the certificates of participation captioned above (the **"Certificates"**), which evidence the direct, undivided fractional interests of the Owners thereof in Lease Payments to be made by the City of Sunnyvale (the **"City"**) to the Sunnyvale Financing Authority (the "**Authority**").

All capitalized terms used in this Official Statement but not otherwise defined have the meanings set forth in the Trust Agreement or the Lease Agreement. See "APPENDIX A – Summary of Principal Legal Documents."

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Certificates to potential investors is made only by means of the entire Official Statement.

Authority for Execution and Delivery. The Certificates will be executed and delivered under a Trust Agreement dated as of May 1, 2009 (the **"Trust Agreement"**), among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the **"Trustee"**), under a resolution adopted by the City Council of the City on _____, 2009, and under a resolution adopted by the Board of Directors of the Authority on _____, 2009. Under these resolutions, the maximum authorized principal amount of the Certificates is $16,500,000.

Use of Proceeds. The net proceeds of the sale of the Certificates will be used (a) to refund, on a current basis, the outstanding certificates of participation captioned "Certificates of Participation (Government Center Site Acquisition Project)," which were dated April 5, 2001, and executed and delivered by the Authority in the original principal amount of $18,710,000 (the "**2001 Certificates**"), and (b) to pay certain costs incurred in connection with the execution and delivery of the Certificates. The 2001 Certificates were executed and delivered in order to finance a portion of the cost of acquiring an improved parcel of property located in the City (the "**Project**"). See "FINANCING PLAN – Refunding Plan" and "– Estimated Sources and Uses of Funds."

Variable Rate Certificates. Under the Trust Agreement, the Certificates are multi-modal certificates of participation authorized to bear interest at a Daily Interest Rate, Weekly Interest Rate, Certificate Interest Term Rate or Long-Term Interest Rate (each an "**Interest Rate Mode**"). The Certificates will initially bear interest at a Weekly Interest Rate. If the interest rate mode is subsequently adjusted, the Certificates will be subject to mandatory tender for purchase, as described in this Official Statement. See "THE CERTIFICATES."

THIS OFFICIAL STATEMENT DESCRIBES THE CERTIFICATES ONLY DURING THE PERIOD THE CERTIFICATES BEAR INTEREST AT A WEEKLY INTEREST RATE, A DAILY INTEREST RATE OR A CERTIFICATE INTEREST TERM RATE, AND ARE SECURED BY THE LETTER OF CREDIT. INVESTORS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT IF THE INTEREST RATE ON THE CERTIFICATES IS ADJUSTED TO ANY OTHER MODE OR IF THE CERTIFICATES ARE NO LONGER SECURED BY THE LETTER OF CREDIT.

Security and Sources of Payment. The Certificates evidence and represent the direct, undivided fractional interests of the registered owners (the **"Owners"**) thereof in Lease Payments (as defined below) to be made by the City for the right to use the real property which is leased by the City from the Authority, consisting generally of an office complex owned by the City located at 505 West Olive Avenue, Sunnyvale, which is intended to be used as the site of a new government center in the future (collectively, the **"Leased Property"**), as defined and as more fully described in this Official Statement.

The City and the Authority will enter into a Site Lease dated as of May 1, 2009 (the **"Site Lease"**). Under the Site Lease, the City (as owner of the Leased Property) will lease the Leased Property to the Authority. Concurrently, the City and the Authority will enter into a Lease Agreement dated as of May 1, 2009 (the **"Lease Agreement"**). Under the Lease Agreement, the City will lease the Leased Property back from the Authority for the purpose of refinancing the Project.

The Trustee and the Authority will enter into an Assignment Agreement dated as of May 1, 2009 (the **"Assignment Agreement"**), under which the Authority will assign to the Trustee for the benefit of the Certificate Owners substantially all of the Authority's right, title and interest in and to the Lease Agreement, including its right to receive the Lease Payments due under the Lease Agreement, provided that the Authority will retain the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement.

See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

Limited Obligation. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Lease Payments. "Lease Payments" are defined as all payments required to be paid by the City under the Lease Agreement for the use and occupancy of the Leased Property. The Lease Payments are payable from any source of available funds of the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

Covenant to Appropriate. The City is required under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments in each of its annual or biennial budgets during the term of the Lease Agreement, and to make the necessary annual appropriations for all Lease Payments and Additional Payments. The Lease Payments payable under the Lease Agreement will comprise the interest and principal represented by the Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

Letter of Credit. Payment of the principal, interest and purchase price of the Certificates will initially have the benefit of an irrevocable direct-pay letter of credit (the "**Letter of Credit**") to be issued by Union Bank, N.A. (the "**Bank**") as the initial Credit Facility under the Trust Agreement. The initial expiration date of the Letter of Credit is May ____, 2012, as may be extended or earlier terminated in accordance with its terms. The Letter of Credit is being issued under a Reimbursement Agreement dated as of May 1, 2009 (the "**Reimbursement Agreement**") between the Bank and the City. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT," "THE BANK" and "APPENDIX E – Form of Letter of Credit."

Prepayment and Mandatory Tender. The Certificates are subject to optional prepayment, mandatory prepayment from net proceeds of insurance or condemnation and mandatory sinking fund prepayment prior to their maturity, and to optional tender and mandatory tender prior to maturity. See "THE CERTIFICATES – Prepayment of Certificates, "– Purchase of Certificates at the Option of Owner" and "– Mandatory Tender of Certificates."

Summaries of Documents. The summaries or references to the Site Lease, the Trust Agreement, the Lease Agreement, the Assignment Agreement and other documents, agreements and statutes referred to in this Official Statement, and the description of the Certificates included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute.

FINANCING PLAN

Refunding Plan

The Authority will apply a portion of the net proceeds from the sale of the Certificates to establish an irrevocable escrow to refund and legally defease, on a current basis, the 2001 Certificates, which are currently outstanding in the principal amount of $_____. The 2001 Certificates were executed and delivered in April 2001 in order to finance a portion of the cost of acquiring the Project, which consisted of the office complex at located 505 West Olive Avenue comprising the Leased Property.

A portion of the proceeds of the Certificates will be deposited into the Escrow Fund established under the Trust Agreement and held by the Trustee. In addition, on or before the Closing Date the City will transfer to the Trustee an amount equal to (i) interest that will accrue on the 2001 Certificates from the last interest payment date to and including the date of prepayment, and (ii) amounts on deposit in the debt service reserve fund for the 2001 Certificates.

The amounts on deposit in the Escrow Fund will be held by the Trustee, uninvested, and will be used to prepay the 2001 Certificates on or about the Closing Date.

A portion of the proceeds of the Certificates will also be used to pay certain costs incurred in connection with the execution and delivery of the Certificates, as set forth below.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Certificates are shown below.

SOURCES	
Principal Amount of Certificates	$
Less: Underwriter's Discount	()
Total Sources:	
USES	
Escrow Fund [1]	$
Costs of Issuance Fund [2]	
Total Uses:	

[1] To be used to prepay the 2001 Certificates in full, as described above.

[2] Includes, among other things, filing and recording costs, printing costs, reproduction and binding costs, initial Bank fees, initial fees and charges of the Trustee (which include legal fees and the first annual administration fee of the Trustee), legal fees and charges, other professional consultant fees, cost of rating agency for credit rating, and miscellaneous charges and fees in connection with the foregoing.

THE LEASED PROPERTY

Description and Location

Lease Payments will be made by the City under the Lease Agreement for the use and possession of the Leased Property, which consists of two adjacent parcels of real property aggregating approximately 5.59 acres located at 505 West Olive Avenue, Sunnyvale. One parcel is vacant and the other is improved with a seven-building, 35,222 square-foot office complex that was originally constructed in 1961. The property is adjacent to the City's existing government center complex and was acquired by the City as the site for the possible construction of a new government center in the future.

The City originally acquired the Leased Property in January 2001 with the proceeds of the 2001 Certificates.

Modification

Under the Lease Agreement, the City, at its own expense, has the right to remodel the Leased Property, or to make additions, modifications and improvements thereto. All additions, modifications and improvements to the Leased Property will thereafter comprise part thereof and be subject to the provisions of the Lease Agreement.

Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under State and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under the Lease Agreement, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to the Lease Agreement. However, if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, 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 will 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 the City.

Substitution

Under the Lease Agreement, the City has the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land, facilities, improvements or other property (a "**Substitute Property**") for the Leased Property or any portion thereof (a "**Former Property**"), provided that the City obtains the written consent of the Credit Facility Provider and satisfies all of the requirements set forth in the Lease Agreement, which are conditions precedent to such substitution, as follows:

(a) The City must notify the Credit Facility Provider in writing of the substitution.

(b) The City must take all actions and execute all documents required to subject the Substitute Property to the terms and provisions of the Lease Agreement, including the filing with the Authority and the Trustee an amended Exhibit A, which adds thereto a description of the Substitute Property and deletes therefrom the description of the Former Property, and including the recordation of this Lease or a memorandum hereof with respect to such Substitute Property in the office of the Santa Clara County Recorder.

(c) The City must certify in writing to the Authority, the Credit Facility Provider and the Trustee that the estimated fair market value and the estimated fair rental value of the Substitute Property are at least equal to estimated fair market value and the estimated fair rental value, respectively, of the Former Property, except that the estimated fair market value of the Substitute Property, together with the portion of the Leased Property remaining after the removal of the Former Property, will not be required to exceed the aggregate principal components of the unpaid Lease Payments.

(d) The City must certify in writing to the Authority, the Credit Facility Provider and the Trustee that the Substitute Property serves the public purposes of the City and constitutes property the City is permitted to lease under the laws of the State of California.

(e) The City must certify in writing to the Authority, the Credit Facility Provider and the Trustee that the estimated useful life of the Substitute Property at least extends to the date on which the final Lease Payment becomes due and payable under the Lease Agreement.

(f) The City must obtain a CLTA policy of title insurance meeting the requirements of the Lease Agreement with respect to the Substitute Property.

(g) The substitution of the Substitute Property must not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement.

From and after the date on which all of the conditions precedent to such substitution set forth in the Lease Agreement are satisfied, the Term of the Lease Agreement will cease with respect to the Former Property and will be continued with respect to the Substitute Property, and all references in the Lease Agreement to the Former Property will apply with full force and effect to the Substitute Property.

The City will not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

Removal

Under the Lease Agreement, the City has the option at any time and from time to time during the Term of the Lease Agreement, to remove any property from the description of the Leased Property contained in the Lease Agreement, provided that the City obtains the written consent of the Credit Facility Provider and satisfies all of the requirements set forth in the Lease Agreement, which are conditions precedent to such removal, as follows:

(a) The City must file with the Authority and the Trustee an amended Exhibit A to the Lease Agreement that deletes the description of the property to be removed.

(b) The City must certify that the appraised value of the Leased Property that will remain following such removal is not less than the aggregate principal amount of the Outstanding Certificates.

(c) The City must obtain and cause to be filed with the Credit Facility Provider, the Trustee and the Authority a Favorable Opinion of Special Counsel (as defined in the Trust Agreement) stating that such removal is permitted under the Lease Agreement and does not cause interest with respect to the Certificates to become includable in the gross income of the Certificate Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such removal are satisfied, the Term of the Lease Agreement will cease with respect to the property so removed. The City will not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such removal.

THE CERTIFICATES

This section describes certain provisions of the Trust Agreement related to terms of the Certificates. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a summary of other provisions of the Trust Agreement. Capitalized terms used but not defined in this section have the meanings set forth in APPENDIX A.

This Official Statement describes certain terms of the Certificates applicable while the Certificates bear interest at a Weekly Interest Rate, a Daily Interest Rate or a Certificate Interest Term Rate. There are significant changes in the terms applicable to the Certificates in other Interest Rate Modes. Investors should not rely on this Official Statement if the interest rate on the Certificates is adjusted to any other Interest Rate Mode or if the Certificates are no longer secured by the Letter of Credit.

Certificate Terms

General. The Certificates evidence and represent direct, undivided fractional interests of the Owners thereof in the principal and interest components of Lease Payments to be made by the City under the Lease Agreement.

Dated Date and Maturity. The Certificates will be dated the date of their original execution and delivery, and will mature and become payable on April 1, 2031.

Denominations. During any period when the Certificates bear interest at a Weekly Interest Rate, a Daily Interest Rate or a Certificate Interest Term Rate, the minimum denominations for the Certificates is $100,000 or any integral multiple of $5,000 above $100,000.

Multi-Modal Interest Rate Certificates. Under the Trust Agreement, the Certificates are multi-modal certificates of participation authorized to bear interest at a Daily Interest Rate, Weekly Interest Rate, Certificate Interest Term Rate or Long-Term Interest Rate. If the interest rate mode is subsequently adjusted, the Certificates will be subject to mandatory tender for purchase, as described below.

The Trust Agreement defines "**Short-Term Interest Rate Period**" to mean each period, consisting of Certificate Interest Terms, during which Certificates represent interest at one or more Certificate Interest Term Rates. Under the Trust Agreement, a Short-Term Interest Period is longer than a Weekly Interest Rate Period, but less than 180 days in duration.

Initial Interest Rate. The Certificates will initially bear interest at a Weekly Interest Rate, payable on the 1st day of each month, commencing June 1, 2009.

Accrual and Payment of Interest. Interest with respect to the Certificates will accrue on the basis of the actual number of days elapsed during the Interest Rate Period and a year of 365 days (366 days in a leap year).

Interest will be paid with respect to the Certificates on each "**Interest Payment Date**," which is defined in the Trust Agreement as follows:

- For any Weekly Interest Rate Period, the first day of each month commencing June 1, 2009, or, if such first day is not a Business Day, the next succeeding Business Day.

- For any Daily Interest Rate Period, the first day of each month or, if such first day is not a Business Day, the next succeeding Business Day.

- For any Certificate Interest Term, the day next succeeding the last day of that Certificate Interest Term.

Each Certificate will represent interest from and including the Interest Accrual Date immediately preceding the date of execution and delivery thereof or, if such date of execution and delivery is an Interest Accrual Date to which interest with respect to the Certificates has been paid in full or duly provided for, from such date of execution and delivery or, if it is the first payment of interest with respect to the Certificates, the date thereof.

However, if, as shown by the records of the Trustee, interest with respect to the Certificates is in default, Certificates executed and delivered in exchange for Certificates surrendered for registration of transfer or exchange will represent interest from the date to which interest has been paid in full with respect to the Certificates so surrendered or, if no interest has been paid with respect to the Certificates, from the date thereof.

For any Daily Interest Rate Period, interest with respect to the Certificates will be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of such month.

For any Weekly Interest Rate Period, interest with respect to the Certificates will be payable on each Interest Payment Date for the period commencing on (and including) the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Thursday, commencing on (and including) the second preceding Interest Accrual Date) and ending on (and including) the Wednesday immediately preceding the Interest Payment Date (or, if sooner, the last day of such Weekly Interest Rate Period).

For any Short-Term Interest Rate Period for Certificates (during which the Certificates will bear interest at a Certificate Interest Term Rate), interest with respect to the Certificates will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date (or, if sooner, the last day of such Short-Term Interest Rate Period).

In any event, interest with respect to the Certificates will be payable for the final Interest Rate Period to but not including the date on which the Certificates have been paid in full.

The Trust Agreement defines "**Interest Accrual Date**" as follows:

(a) For any Weekly Interest Rate Period, the first day thereof, and thereafter, the first day of each month during that Weekly Interest Rate Period.

(b) For any Daily Interest Rate Period, the first day thereof, and thereafter, the first day of each month.

(c) For any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date.

(d) For each Short Term Interest Period, the first day thereof.

Division into Interest Rate Periods. The terms of the Certificates will be divided into consecutive Interest Rate Periods during each of which the Certificates will represent interest at the Daily Interest Rate, Weekly Interest Rate, or Certificate Interest Term Rates, Long-Term Interest Rate. However, at any given time, all Certificates will represent interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate or at Certificate Interest Term Rates.

Weekly Interest Rate and Weekly Interest Rate Period.

Determination of Weekly Interest Rate. During each Weekly Interest Rate Period for Certificates, the Certificates will represent interest at the Weekly Interest Rate, which will be determined by the Remarketing Agent by 5:00 p.m., New York City time, on Wednesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day.

The first Weekly Interest Rate for each Weekly Interest Rate Period will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Wednesday.

Thereafter, each Weekly Interest Rate will apply to the period commencing on and including Thursday and ending on and including the next succeeding Wednesday, unless such Weekly Interest Rate Period ends on a day other than Wednesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period will apply to the period commencing on and including the Thursday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period.

Each Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Certificates and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if represented by the Certificates, would enable the Remarketing Agent to sell all of the Certificates on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week with respect to the Certificates representing interest at such rate, then the Weekly Interest Rate for such week will be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, will be equal to 110% of the SIFMA Index of Municipal Market Data, a Thomson Financial Services Company, or its predecessors or assigns, made available for the week preceding the date of determination, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as

reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period.

Conversion to Weekly Interest Rate. Subject to the provisions of the Trust Agreement regarding conversions between Interest Rate Modes and rescission of an election to convert between Interest Rate Modes, the City may, from time to time, by written direction to the Trustee, the Tender Agent (if any), the Credit Facility Provider (if any) and the Remarketing Agent (if any), elect that the Certificates will represent interest at a Weekly Interest Rate.

The direction of the City will specify:

(a) the proposed effective date of the Conversion to a Weekly Interest Rate, which will be (i) in each case, a Business Day not earlier than the 20th day following the fifth Business Day after receipt by the Trustee of such direction, (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Certificates would otherwise be subject to optional prepayment under the Trust Agreement if such Conversion did not occur, and (iii) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period determined in accordance with the Trust Agreement; and

(b) the Purchase Date for the Certificates to be purchased, which will be the proposed effective date of the Conversion to a Weekly Interest Rate.

In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the Certificates by the Trustee as provided in the Trust Agreement.

During each Weekly Interest Rate Period for the Certificates commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate represented by the Certificates will be a Weekly Interest Rate.

Notice of Conversion to Weekly Interest Rate. The Trustee will give notice by first-class mail of a Conversion to a Weekly Interest Rate Period to the Owners of the Certificates not less than 20 days prior to the proposed effective date of such Weekly Interest Rate Period.

Such notice will state (a) that the interest rate will be Converted to a Weekly Interest Rate unless the City rescinds its election to Convert the interest rate to a Weekly Interest Rate as provided in the Trust Agreement; (b) the proposed effective date of the Weekly Interest Rate Period; (c) that the Certificates are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the Certificates; and (d) the information set forth in the provisions of the Trust Agreement regarding notices of mandatory tender for purchase of Certificates.

Daily Interest Rate and Daily Interest Rate Period.

Determination of Daily Interest Rate. During each Daily Interest Rate Period for Certificates, the Certificates will represent interest at the Daily Interest Rate, which will be determined by the Remarketing Agent on each Business Day for such Business Day.

The Daily Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the

judgment of the Remarketing Agent, to the Certificates and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) on or before 9:30 a.m., New York City time, on a Business Day to be the minimum interest rate which, if represented by all of the Certificates, would enable the Remarketing Agent to sell the Certificates on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day will be the same as the Daily Interest Rate for the immediately preceding Business Day.

If for any reason a Daily Interest Rate is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day will be the same as the Daily Interest Rate for the immediately preceding day and such rate will continue until the earlier of (a) the date on which the Remarketing Agent determines a new Daily Interest Rate or (b) the 7th day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent.

If the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of 7 days as described in clause (b) of the immediately preceding sentence, the interest rate applicable to the Certificates, as determined by the Remarketing Agent, will be the interest rate per annum equal to 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal as reported for each Business Day (and for the next preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by the Remarketing Agent.

Conversion to Daily Interest Rate. Subject to the provisions of the Trust Agreement regarding conversions between Interest Rate Modes and rescission of an election to convert between Interest Rate Modes, the City may, from time to time, by written direction to the Trustee, the Tender Agent (if any), the Credit Facility Provider (if any), and the Remarketing Agent (if any), elect that the Certificates will represent interest at a Daily Interest Rate.

The direction of the City will specify:

(a) the proposed effective date of such Conversion to a Daily Interest Rate, which will be (i) in each case, a Business Day not earlier than the 20th day following the third Business Day after receipt by the Trustee of such direction, (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Certificates would otherwise be subject to optional prepayment under the Trust Agreement if such Conversion did not occur, and (iii) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period determined in accordance with the Trust Agreement, and

(b) the Purchase Date for the Certificates to be purchased, which will be the proposed effective date of the Conversion to a Daily Interest Rate.

In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the Certificates by the Trustee as provided in the Trust Agreement.

During each Daily Interest Rate Period for the Certificates commencing on a date so specified and ending on the day immediately preceding the effective date of the next

succeeding Interest Rate Period, the interest rate represented by the Certificates will be a Daily Interest Rate.

Notice of Conversion to Daily Interest Rate. The Trustee will give notice by first-class mail of a Conversion to a Daily Interest Rate Period to the Owners of the Certificates not less than 20 days prior to the proposed effective date of such Daily Interest Rate Period.

Such notice shall state (a) that the interest rate will be Converted to a Daily Interest Rate unless the City rescinds its election to Convert the interest rate to a Daily Interest Rate as provided in the Trust Agreement; (b) the proposed effective date of the Daily Interest Rate Period; (c) that the Certificates are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the Certificates; and (d) the information set forth in the provisions of the Trust Agreement regarding notices of mandatory tender for purchase of Certificates.

Certificate Interest Term Rates and Short-Term Interest Rate Period.

Determination of Certificate Interest Terms and Certificate Interest Rates. During each Short-Term Interest Rate Period for Certificates, each Certificate will represent interest during each Certificate Interest Term at the Certificate Interest Term Rate for that Certificate. The Certificate Interest Term and the Certificate Interest Term Rate for each Certificate need not be the same for any two Certificates, even if determined on the same date.

Each Certificate Interest Term and Certificate Interest Term Rate will be determined by the Remarketing Agent no later than the first day of each Certificate Interest Term. Each Certificate Interest Term will be for a period of days within the range or ranges announced by the Remarketing Agent as possible Certificate Interest Terms no later than 9:00 a.m., New York City time, on the first day of each Certificate Interest Term.

Certificate Interest Terms. Each Certificate Interest Term will be a period of not more than 180 days, determined by the Remarketing Agent in its reasonable judgment to be the period which, together with all other Certificate Interest Terms for all Certificates representing interest at Certificate Interest Term Rates then Outstanding, will result in the lowest overall interest expense on the Certificates. Each Certificate Interest Term will end either on a day which immediately precedes a Business Day or on a day immediately preceding the Maturity Date.

If for any reason a Certificate Interest Term for any Certificate representing interest at Certificate Interest Term Rates cannot be determined by the Remarketing Agent, or if the determination of such Certificate Interest Term is held by a court of law to be invalid or unenforceable, then such Certificate Interest Term will be 30 days, but if the day so determined is not a day immediately preceding a Business Day, that Certificate Interest Term will end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Maturity Date, the Certificate Interest Term will end on the day immediately preceding such Maturity Date.

In determining the number of days in each Certificate Interest Term, the Remarketing Agent will take into account the following factors: (i) existing short-term tax-exempt market rates and indices of such short-term rates, (ii) the existing market supply and demand for short-term tax-exempt securities, (iii) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality and other characteristics comparable to the Certificates representing interest at Bond Term Interest Rates, (iv) general economic conditions,

(v) industry, economic and financial conditions that may affect or be relevant to the Certificates, (vi) the Certificate Interest Terms of other Certificates subject to a Short-Term Interest Rate Period and (vii) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent in its sole discretion determines to be relevant; provided, however, that the number of days in any Certificate Interest Term may not exceed the number of days of interest coverage provided under the Credit Facility Agreement less five days. The Certificate Interest Term may not mature later than 5 days prior to the expiration of the Credit Facility Agreement.

Certificate Interest Term Rates. The Certificate Interest Term Rate for each Certificate Interest Term for each Certificate in a Short-Term Interest Rate Period will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the Certificates and known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if represented by such Certificate for such Certificate Interest Term, would enable the Remarketing Agent to sell such Certificate on the effective date of such Certificate Interest Term at a price equal to the principal amount thereof.

If for any reason a Certificate Interest Term Rate for any Certificate in a Short-Term Interest Rate Period is not established by the Remarketing Agent for any Certificate Interest Term, or the determination of such Certificate Interest Term Rate is held by a court of law to be invalid or unenforceable, then the Certificate Interest Term Rate for such Certificate Interest Term, as determined by the Remarketing Agent, will be the rate per annum equal to 85% of the interest rate on high-grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal as reported on the first day of such Certificate Interest Term and which maturity most nearly equals the Certificate Interest Term for which a Certificate Interest Term Rate is being calculated.

Conversion to Certificate Interest Term Rates. Subject to the provisions of the Trust Agreement regarding conversions between Interest Rate Modes and rescission of an election to convert between Interest Rate Modes, the City may, from time to time, by written direction to the Trustee, the Remarketing Agent, the Tender Agent and the Credit Facility Provider (if any), elect that the Certificates will represent interest at Certificate Interest Term Rates.

The direction of the City will specify:

(a) the proposed effective date of the Short-Term Interest Rate Period (during which the Certificates will represent interest at Certificate Interest Term Rates), which will be (i) in each case, a Business Day not earlier than the 20th day following the third Business Day after receipt by the Trustee of such direction, (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of such Long-Term Interest Rate Period or a day on which the Certificates would otherwise be subject to optional prepayment under the Trust Agreement if such Conversion did not occur, and

(b) the Purchase Date for the Certificates to be purchased, which will be the proposed effective date of the Short-Term Interest Rate Period.

In addition, the direction of the City will be accompanied by a form of the notice to be mailed by the Trustee to the Owners of the Certificates as provided in the Trust Agreement.

During each Short-Term Interest Rate Period commencing on the date specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, each Certificate will represent interest at a Certificate Interest Term Rate during each Certificate Interest Term for that Certificate.

Notice of Conversion to Certificate Interest Term Rates. The Trustee will give notice by first-class mail of a Conversion to a Short-Term Interest Rate Period to the Owners of the Certificates not less than 20 days prior to the proposed effective date of such Short-Term Interest Rate Period.

Such notice will state (a) that the Certificates will represent interest at Certificate Interest Term Rates unless the City rescinds its election to Convert the interest rate to Certificate Interest Term Rates as provided in the Trust Agreement; (b) the proposed effective date of the Short-Term Interest Rate Period; (c) that the Certificates are subject to mandatory tender for purchase on the proposed effective date of the Short-Term Interest Rate Period and setting forth the applicable Purchase Price and the place of delivery for purchase of the Certificates; and (d) the information set forth in the provisions of the Trust Agreement regarding notices of mandatory tender for purchase of Certificates.

Conversion from Short-Term Interest Rate Period. Subject to the provisions of the Trust Agreement regarding conversions between Interest Rate Modes and rescission of an election to convert between Interest Rate Modes, at any time during a Short-Term Interest Rate Period, the City may elect, pursuant to the Trust Agreement, that the Certificates no longer will represent interest at Certificate Interest Term Rates and will represent interest at a Weekly Interest Rate, a Daily Interest Rate or a Long-Term Interest Rate, as specified in such election.

The date on which all Certificate Interest Terms determined for the Certificates ends will be the last day of the current Short-Term Interest Rate Period with respect thereto, and the day next succeeding such date will be the Maturity Date or the effective date of the Daily Interest Rate Period, Weekly Interest Rate Period, or Long-Term Interest Rate Period elected by the City.

Determinations of Remarketing Agent Binding.

The determination of the Daily Interest Rate, Weekly Interest Rate and Long-Term Interest Rate and each Certificate Interest Term and Certificate Interest Term Rate by the Remarketing Agent will be conclusive and binding upon the City, the Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider, if any, and the Certificate Owners, absent manifest error.

Conversion of Interest Rate Periods.

At the direction of the City, from time to time, the Certificates may be Converted from an Interest Rate Period to another Interest Rate Period as provided in the Trust Agreement.

Notice Upon Converting Interest Rate. If the City elects to Convert the interest rate with respect to the Certificates to a Weekly Interest Rate, a Daily Interest Rate, a Long-Term Interest Rate or Certificate Interest Term Rates as provided in the Trust Agreement, the written direction furnished by the City to the Trustee, the Tender Agent (if any), the Credit Facility Provider (if any), and the Remarketing Agent (if any), as required by the Trust Agreement will be made by registered or certified mail, or by telecopy confirmed by registered or certified mail.

That direction will specify whether the Certificates are to represent interest at the Weekly Interest Rate, Daily Interest Rate, Long-Term Interest Rate or Certificate Interest Term Rates, and will be accompanied by a copy of the appropriate notice required to be given by the Trustee under the Trust Agreement. All Certificates will represent interest in the same Interest Rate Period.

Rescission of Election. Notwithstanding anything in the Trust Agreement to the contrary, in connection with any Conversion of the Interest Rate Period for the Certificates, the City will have the right to deliver to the Trustee, the Remarketing Agent (if any), the Tender Agent (if any), and the Credit Facility Provider (if any), on or prior to 10:00 a.m., New York City time, on the second Business Day prior to any such Conversion, a notice to the effect that the City elects to rescind its election to make such Conversion.

If the City rescinds its election to make such Conversion, then the Interest Rate Period will not be Converted and the Certificates will continue to represent interest at the Weekly Interest Rate, Daily Interest Rate, Long-Term Interest Rate or Certificate Interest Term Rates, as the case may be, as in effect immediately prior to such proposed Conversion.

In any event, if notice of a Conversion has been mailed to the Owners of the Certificates as provided in the Trust Agreement, and the City rescinds its election to make such Conversion, then the Certificates will continue to be subject to mandatory tender for purchase on the date that would have been the effective date of the Conversion as provided in the Trust Agreement.

Certain Additional Conditions. No Conversion of Certificates from one Interest Rate Period to another will take effect under the Trust Agreement unless each of the following conditions, to the extent applicable, has been satisfied:

(i) With respect to the new Interest Rate Period, there must be in effect a Credit Facility, which provides coverage for the Interest Rate Period into which the Certificates are to be converted, if and as required under the Trust Agreement.

(ii) The Trustee must have received a Favorable Opinion of Special Counsel with respect to such Conversion.

(iii) In the case of any Conversion with respect to which there is no Credit Facility in effect to provide funds for the purchase of Certificates on the Conversion Date, the remarketing proceeds available on the Conversion Date must not be less than the amount required to purchase all of the Certificates at the Purchase Price (but not including any premium), and if such proceeds are less than the amount so required, the provisions of the Trust Agreement regarding inadequate funds for tenders will apply.

Failure to Meet Conditions. If any condition to the Conversion of the Certificates is not satisfied as provided in the Trust Agreement, then the Interest Rate Period will not be Converted and the Certificates will continue to represent interest at the Weekly Interest Rate, Daily Interest Rate, Long-Term Interest Rate (for a Long-Term Interest Rate Period of 181 days) or Certificate Interest Term Rates, as the case may be, as in effect immediately prior to such proposed Conversion, and the Certificates will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Trust Agreement.

Payment of Certificates.

Trustee as Registrar and Paying Agent. Whether interest is payable at the Basic Certificate Rate or at the Fixed Interest Rate, the Trustee will solely act as the registrar and paying agent.

Payment. The principal, premium, if any, and interest payable with respect to the Certificates shall be payable in lawful money of the United States of America, being any lawful money of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts.

Subject to the provisions of the Trust Agreement concerning DTC and the book-entry only system, interest will be paid on each Interest Payment Date to the Owner thereof at the close of business on the Record Date with respect to such interest payment (or in the case of Bank Certificates to the Credit Facility Provider) and will be paid by check mailed on the applicable Interest Payment Date by first class mail, postage prepaid, to such Owner at his address as it appears on the Registration Books or, upon the written request of the Credit Facility Provider (which will be deemed to be made in the Reimbursement Agreement) or an Owner of at least $1,000,000 in aggregate principal amount of Certificates received by the Trustee prior to the Record Date, by wire transfer in immediately available funds to an account in the United States designated in writing by such Owner or the Credit Facility Provider, irrespective of the cancellation of such Certificate upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date, unless the City defaults in the payment of interest due with respect to such Interest Payment Date.

Subject to the provisions of the Trust Agreement concerning DTC and the book-entry only system, payment of principal or premium due will be paid only upon surrender of such Certificate at the Office of the Trustee.

In the event of any default in the payment of interest, such defaulted interest will be payable to the Owner of such Certificate on a special record date for the payment of such defaulted interest, which date will be established by the Trustee by notice mailed by or on behalf of the City to the Owners of Certificates not less than 15 days preceding such special record date.

Purchase of Certificates at the Option of Owner

Optional Purchase During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Certificate (other than a Bank Certificate) representing interest at a Weekly Interest Rate will be purchased in an Authorized Denomination (provided that the amount of any such Certificate not to be purchased is also in an Authorized Denomination) from its Owner according to the Operational Arrangements of DTC at the option of the Owner on any Business Day at a purchase price equal to the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Certificates, to the Trustee at its Corporate Trust Office and to the Remarketing Agent at the address set forth in the Remarketing Agreement, of an irrevocable written notice that states the principal amount thereof to be purchased and the date on which it will be purchased, which date must be a Business Day not prior to the 7th day after the date of the delivery of such notice to the Tender Agent, a copy of such notice to be promptly delivered to the Credit Facility Provider.

Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, will be deemed to have been received on the next succeeding Business Day, such notice to be promptly delivered to the Credit Facility Provider by the Tender Agent.

For payment of the Purchase Price on the Purchase Date, such Certificate must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date to the Tender Agent at its Corporate Trust Office for delivery of Certificates accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Owner or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

During any Weekly Interest Rate Period for which the Book-Entry system is in effect, any Certificate representing interest at the Weekly Interest Rate or portion thereof (provided that the principal amount to be purchased and the principal amount to be retained are each an Authorized Denomination) will be purchased from its Owner on the date specified in the notice referred to below at the Purchase Price. The irrevocable written notice must be delivered on any Business Day by the "Participant" for such Certificate (as defined under applicable DTC procedures) to the Tender Agent at its Corporate Trust Office for the delivery of such Certificates, to the Trustee at its Corporate Trust Office and to the Remarketing Agent.

That notice must state the principal amount to be purchased and the date on which it will be purchased, which date must be a Business Day not prior to the 7th day after the date of the delivery of such notice to the Trustee. Payment of the Purchase Price will be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Purchase Price as set forth in the Trust Agreement on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Certificate tendered for purchase to the account of the Tender Agent.

Optional Purchase During Daily Interest Rate Period. During any Daily Interest Rate Period, any Certificate (other than a Bank Certificate) representing interest at a Daily Interest Rate will be purchased in an Authorized Denomination (provided that the amount of any such Certificate not to be purchased is also in an Authorized Denomination) from its Owner according to the Operational Arrangements of DTC at the option of the Owner on any Business Day at a purchase price equal to the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Certificates, to the Trustee at its Corporate Trust Office and to the Remarketing Agent at the address set forth in the Remarketing Agreement, by no later than 11:00 a.m., New York City time, on such Business Day, of an irrevocable written notice, which states the principal amount of such Certificates to be purchased and the date of purchase.

For payment of such Purchase Price on the date specified in such notice, such Certificates must be delivered, at or prior to 12:00 noon, New York City time, on such Business Day, to the Tender Agent at its Corporate Trust Office for delivery of Certificates.

During any Daily Interest Rate Period for which the Book-Entry System is in effect, any Certificate representing interest at the Daily Interest Rate or portion thereof (provided that the principal amount to be purchased and the principal amount to be retained is each an Authorized Denomination) will be purchased from its Owner according to the Operational Arrangements of DTC on the date specified in the notice referred to below at the Purchase Price.

The irrevocable written notice, executed by the Participant, must be delivered on any Business Day by the Participant for such Certificate to the Tender Agent at its Corporate Trust Office for the delivery of such Certificates by 11:00 a.m., New York City time, to the Trustee at its Corporate Trust Office and to the Remarketing Agent.

That notice shall state the principal amount to be purchased and the date on which it will be purchased. Payment of the Purchase Price will be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Purchase Price as set forth in the Trust Agreement on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Certificate tendered for purchase to the account of the Tender Agent.

Mandatory Tender of Certificates.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Certificate Interest Term. On the first day following the last day of each Certificate Interest Term for a Certificate, unless such day is the first day of a new Interest Rate Period (in which case such Certificate will be subject to mandatory tender for purchase as described below), such Certificate will be subject to mandatory tender for purchase at the Purchase Price, payable by wire transfer in immediately available funds, if such Certificate is delivered to the Tender Agent on or prior to 12:00 noon, New York City time, on the Purchase Date, or if delivered after 12:00 noon, New York City time, on the next succeeding Business Day.

Interest will cease to accrue on such Certificate on the last day of each Certificate Interest Term.

The Purchase Price will be payable only upon surrender to the Tender Agent at its Corporate Trust Office for delivery of Certificates, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Certificate Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Certificates will be subject to mandatory tender for purchase on the first day of each Interest Rate Period following Conversion, at the Purchase Price, payable in immediately available funds. For payment of the Purchase Price on the Purchase Date, a Certificate must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date. If delivered after that time, the Purchase Price will be paid on the next succeeding Business Day.

Mandatory Tender for Purchase Upon Substitution or Expiration of Credit Facility, or Event of Default Under the Reimbursement Agreement.

(i) If the Trustee gives notice, in accordance with the Trust Agreement, that the Certificates are subject to mandatory tender and purchase pursuant to the Credit Facility then in effect as a result of the substitution of that Credit Facility or the termination or expiration of the term, of the Credit Facility then in effect, each such Certificate will be purchased or deemed purchased at the Purchase Price on the 2nd Business Day after receipt by the Trustee of such Event of Default Notice or such notice of non-reinstatement.

(ii) Upon receipt by the Trustee of an Event of Default Notice or a notice of non-reinstatement from the Credit Facility Provider, then each such Certificate will be

purchased or deemed purchased at the Purchase Price on the 5th Business Day preceding any such substitution, termination or expiration of such Credit Facility.

Payment of the Purchase Price of any such Certificate will be made in immediately available funds by 3:00 p.m., New York City time, on the Purchase Date upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Certificates, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Certificate Owner with the signature of such Certificate Owner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon, New York City time, on the Purchase Date specified as required by the Trust Agreement.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of Certificates in accordance with the Trust Agreement on the first day of each interest rate period or upon substitution, termination or expiration of credit facility, as described above, the Trustee will give the notice described in this subsection as a part of the notice given pursuant to the Trust Agreement.

Such notice must state:

(i) in the case of a mandatory tender for purchase on the first day of each interest rate period, the type of Interest Rate Period to commence on such mandatory purchase date;

(ii) in the case of a mandatory tender for purchase upon substitution, termination or expiration of credit facility, that the Credit Facility will expire or terminate and that the Certificates will no longer be payable from the Credit Facility then in effect and that any rating applicable to the Certificates may be reduced or withdrawn and, in the case of a substitution, the name of the new Credit Facility Provider and that information about such new Credit Facility Provider will be forthcoming;

(iii) that the Purchase Price of any Certificate subject to mandatory tender for purchase will be payable only upon surrender to the Tender Agent at its Corporate Trust Office for delivery of Certificates, of such Certificate accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange;

(iv) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Certificates by the Remarketing Agent or through the Credit Facility, all Certificates subject to mandatory tender for purchase will be purchased on the mandatory Purchase Date; and

(v) that if any Owner subject to mandatory tender for purchase does not surrender that Certificate to the Tender Agent for purchase on the mandatory Purchase Date, then that Certificate will be deemed to be an Undelivered Certificate, that no interest will accrue on that Certificate on and after the mandatory Purchase Date, and that the Owner will have no rights under the Trust Agreement other than to receive payment of the Purchase Price.

Irrevocable Notice Deemed to be Tender of Certificate; Undelivered Certificates.

(i) The giving of notice of optional purchase of Certificates by an Owner of Certificates as provided in the Trust Agreement will constitute the irrevocable tender for purchase with respect to which such notice is given, regardless of whether that Certificate is delivered to the Tender Agent for purchase on the relevant Purchase Date.

(ii) The Tender Agent may refuse to accept delivery of any Certificate for which a proper instrument of transfer has not been provided. However, such refusal will not affect the validity of the purchase as described in the Trust Agreement.

If any Owner who has given notice of tender of purchase pursuant to the Trust Agreement, or any Owner subject to mandatory tender for purchase on the next succeeding last day of each Certificate Interest Term, on the first day of each interest rate period, or upon substitution, termination or expiration of credit facility, as described above, fails to deliver that Certificate to the Tender Agent at the place and on the Purchase Date and at the time specified, or fails to deliver that Certificate properly endorsed, that Certificate will constitute an Undelivered Certificate.

If funds in the amount of the Purchase Price of the Undelivered Certificate are available for payment to the Owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of that required delivery

(a) the Undelivered Certificate will be deemed to be purchased and will no longer be deemed to be Outstanding under the Trust Agreement;

(b) interest will no longer accrue with respect to the Undelivered Certificate; and

(c) funds in the amount of the Purchase Price of the Undelivered Certificate will be held uninvested by the Tender Agent for the benefit of the Owner thereof and the Owner will have no right to any investment proceeds derived from such funds, to be paid on delivery (and proper endorsement) of the Undelivered Certificate to the Tender Agent at its Corporate Trust Office for delivery of Certificates.

Prepayment of Certificates

Optional Prepayment. Subject to the provisions of the Trust Agreement regarding Bank Certificates, the Certificates are subject to prepayment prior to the Maturity Date by the City, in whole or in part, in accordance with the provisions of the Trust Agreement.

Notwithstanding the provisions of the Trust Agreement regarding optional prepayment, no Certificate (other than a Bank Certificate) may be optionally prepaid without the consent of the Credit Facility Provider while any Bank Certificate is Outstanding unless all Outstanding Bank Certificates are prepaid by the Trustee and cancelled concurrently with such prepayment of purchase.

(A) Certificates representing interest at a Daily Interest Rate or a Weekly Interest Rate are subject to optional prepayment by the City, in whole or in part, at a Prepayment Price of 100% of the principal amount thereof plus accrued interest, if any, on any Business Day during a Weekly Interest Rate Period or a Daily Interest Rate Period.

(B) Any Certificate representing interest at Certificate Interest Term Rates is subject to optional prepayment by the City, at a Prepayment Price of 100% of the principal amount thereof

on the day succeeding the last day of any Certificate Interest Term with respect to that Certificate.

Mandatory Sinking Fund Prepayment. The Certificates are also subject to prepayment prior to their stated maturity, in part, by lot, from Mandatory Prepayments required by the Trust Agreement commencing on April 1, 2010, at the principal amount thereof plus accrued interest thereon to but not including the date fixed for prepayment, without premium.

Under the Trust Agreement, an account designated the "Prepayment Account" is established within the Principal Fund. On each Business Day prior to the following payment dates, the Trustee will transfer from the Principal Fund to the Prepayment Account an amount equal to the payment or payments due on such date as set forth below:

Prepayment Date (April 1)	Principal Amount of Certificates To Be Prepaid
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	
2028	
2029	
2030	
2031 (maturity)	

Notwithstanding the foregoing, if any Bank Certificates are Outstanding on any April 1 specified above, the Trustee will apply the scheduled Lease Payments becoming due on such April 1 to the purchase from the Credit Facility Provider of such Bank Certificates in an aggregate principal amount not in excess of the principal amount specified above for such April 1 at a purchase price equal to the prepayment price specified above. The Bank Certificates so purchased will be cancelled by the Trustee and the principal amount thereof will be credited against the principal amount of the Certificates otherwise required to be prepaid on such April 1.

Mandatory Prepayment from Net Proceeds of Insurance or Condemnation Award. The Certificates are subject to extraordinary prepayment prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the City in a Written Request provided to the Trustee at least 60 days prior to such date and by lot within each maturity in Authorized Denominations, from prepaid Lease Payments made by the City

from Net Proceeds, upon the terms and conditions of, and as provided for in, the Trust Agreement and the Lease Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notwithstanding the foregoing, if any Bank Certificates are Outstanding on any April 1 specified above, the Trustee will apply the scheduled Lease Payments becoming due on such April 1 to the purchase from the Credit Facility Provider of such Bank Certificates in an aggregate principal amount not in excess of the principal amount specified above for such April 1 at a purchase price equal to the prepayment price specified above. The Bank Certificates so purchased will be cancelled by the Trustee and the principal amount thereof will be credited against the principal amount of the Certificates otherwise required to be prepaid on such April 1.

See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Covenant to Maintain Insurance."

Selection of Certificates for Prepayment. Whenever less than all of the Certificates are called for prepayment, the Trustee will select the Certificates or portions thereof to be prepaid from the Outstanding Certificates in accordance with the Trust Agreement. The Trustee will promptly notify the City in writing of the numbers of the Certificates or portions thereof so selected for prepayment. Notwithstanding anything in the Trust Agreement to the contrary, any Bank Certificates will be selected for prepayment prior to the selection of any other Certificate.

Notice of Prepayment. While the Certificates are subject to DTC's book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of prepayment to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment described below under "–Effect of Prepayment."

During any period in which the Certificates are not subject to the book-entry system, notice of prepayment will be mailed, first class postage prepaid, to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 20 days but not more than 60 days prior to the prepayment date with a copy to the Credit Facility Provider, if any.

Any notice given by the Trustee with respect to an optional prepayment of Certificates will state that such prepayment is conditioned on Available Moneys being used and available therefor.

Each prepayment notice will also state that on the prepayment date there will become due and payable on each Certificate called for prepayment the Prepayment Price thereof or of the specified portion of the principal represented thereby called for prepayment (in the case of a Certificate to be prepaid in part only), together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto will cease to accrue.

Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

Rescission of Prepayment Notice. Under the Trust Agreement, the City has the right to rescind any notice of the prepayment of Certificates by written notice to the Trustee on or prior to the dated fixed for prepayment.

Any notice of prepayment will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of Default under the Trust Agreement.

The City and the Trustee have no liability to the Certificate Owners or any other party related to or arising from such rescission of prepayment. The Trustee will mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent under the Trust Agreement.

Effect of Prepayment. If notice of prepayment having been duly given pursuant to the Trust Agreement, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date on, the Certificates (or portions thereof) so called for prepayment is held by the Trustee, on the prepayment date designated in such notice, the Certificates (or portions thereof) so called for prepayment will become due and payable at the Prepayment Price specified in such notice together with interest accrued thereon to the date fixed for prepayment, interest with respect to the Certificates so called for prepayment will cease to accrue, the Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement, and the Owners of the Certificates will have no rights in respect thereof except to receive payment of the Prepayment Price and accrued interest.

Book-Entry Only System

General. The Certificates will be executed and delivered as fully registered certificates, registered in the name of Cede & Co. (the "**Nominee**"), as nominee of The Depository Trust Company, New York, New York ("**DTC**"), and will be available to actual purchasers of the Certificates (the "**Beneficial Owners**") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in this Official Statement) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See "APPENDIX F – Book-Entry Only System." If the book-entry-only system is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement, as described in APPENDIX A.

Payments to DTC. Notwithstanding any other provision of the Trust Agreement to the contrary, so long as all Outstanding Certificates are held in book-entry form and registered in the name of the Nominee, all payments with respect to principal, prepayment premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Trust Agreement.

So long as the Certificates are book entry only, payment for tendered Certificates will be effected according to the Operational Arrangements of DTC.

Alternate Credit Facility

Delivery by City. (i) At any time, not later than 20 days prior to the expiration or termination of a Credit Facility, in accordance with the terms of the Credit Facility, the City may provide for the delivery to the Tender Agent of an Alternate Credit Facility which has a term of at least 365 days. Any Alternate Credit Facility delivered to the Tender Agent pursuant to the Trust Agreement must contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent.

On or prior to the date of the delivery of the Alternate Credit Facility to the Tender Agent, the City will furnish to the Tender Agent (a) if the Alternate Credit Facility is issued by a Credit Facility Provider other than a domestic commercial bank, an opinion of Special Counsel satisfactory to the City and the Remarketing Agent that no qualification of the Trust Agreement is required under the Trust Indenture Act of 1939, as amended, or that all applicable registration or qualification requirements have been fulfilled and (b) an opinion of counsel to the Alternate Credit Facility Provider to the effect that such Alternate Credit Facility is a valid and enforceable obligation of the issuer thereof and that no registration of the Alternate Credit Facility is required under the Securities Act of 1933, as amended, and (c) evidence that the City has paid the Credit Facility Provider of the Credit Facility then in effect all payments then owing to such Credit Facility Provider.

(ii) In lieu of the opinion of Special Counsel described above, there may be delivered an opinion of Special Counsel reasonably satisfactory to the City to the effect that either (a) at all times during the term of the Alternate Credit Facility, the Certificates will be offered, sold and held by Owners in transactions not constituting a public offering of the Certificates or the Alternate Credit Facility under the Securities Act of 1933, as amended, and accordingly no registration under the Securities Act of 1933, as amended, nor qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, will be required in connection with the issuance and delivery of the Alternate Credit Facility or the remarketing of the Certificates with the benefits thereof, or (b) the offering and sale of the Certificates, to the extent evidencing the Alternate Credit Facility, has been registered under the Securities Act of 1933, as amended, and any trust agreement required to be qualified with respect thereto under the Trust Indenture Act of 1939, as amended, has been so qualified. If the opinion described in clause (a) above is given, the Certificates and any transfer records relating to the Certificates will be noted indicating the restrictions on sale and transferability described in clause (a).

Acceptance by Tender Agent. If at any time there is delivered to the Tender Agent (i) an Alternate Credit Facility covering all of the Certificates, (ii) the information, opinions and data described above, and (iii) all information required to give the notice of mandatory tender for purchases of the Certificates if required by the Trust Agreement, then the Tender Agent shall accept such Alternate Credit Facility and, after the completion of the drawing of the mandatory tender for purchase established pursuant to the Trust Agreement, promptly surrender the Credit Facility then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to reduce the coverage of such Credit Facility due to the delivery of such Alternate Credit Facility.

Notice of Termination. The Trustee will give immediate notice to the Tender Agent, the Remarketing Agent, each Rating Agency and the Owners of the Certificates of the substitution, termination or expiration of any Credit Facility in accordance with its terms as provided in the Trust Agreement or an extension of any Credit Facility.

Notice of Termination, Event of Default or Other Change in Credit Facility.

The Trustee will give notice by facsimile (if feasible) and by mail to the Owners of the Certificates supported by a Credit Facility, and the Remarketing Agent, of any substitution, termination or expiration of such Credit Facility in accordance with its terms. The notice, which will be sent by facsimile (if feasible) and mailed within one Business Day of receipt by the Trustee of notice that such substitution, termination or expiration will occur, will be accompanied by directions for the purchase of the Certificates pursuant to the Trust Agreement.

The notice must (a) state the date of such termination or expiration and the date of the proposed substitution of an Alternate Credit Facility (if any), (b) state that the Certificates will be purchased pursuant to the Trust Agreement on the fifth Business Day preceding such substitution, termination or expiration, and (c) any other information required in the notice to the Owners of the Certificates by the Trust Agreement. The City will provide the Trustee with written notice of any information required to enable the Trustee to give the foregoing notice.

Purchase of Certificates; Sources and Deposits of Purchase Price.

General. Certificates required to be purchased in accordance with the Trust Agreement will be purchased from the Owners thereof, on the Purchase Date and at the Purchase Price according to the Operational Arrangements of DTC. Funds for the payment of the Purchase Price will be received by the Tender Agent from the following sources and used in the order of priority indicated:

(i) proceeds of the sale of Certificates remarketed pursuant to the Trust Agreement and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Certificate Purchase Fund; and

(ii) money furnished by the Credit Facility Provider to the Tender Agent for deposit into the Credit Facility Purchase Account of the Certificate Purchase Fund from Draw Requests on the Credit Facility, if any; and

(iii) any funds provided by the City for such purpose in its sole discretion (there being no obligation of the City to so provide any such funds).

In connection with any purchase under the Credit Facility by the Credit Facility Provider of any Certificates representing interest at the Weekly Interest Rate which are not Bank Certificates or Certificates owned by or held on behalf of or for the benefit of or for the account of the City or the Authority, the City will cause the Trustee to have the resultant Bank Certificates assigned a CUSIP number or numbers within one Business Day of any such purchase (such CUSIP number(s) to be different from the CUSIP number(s) assigned to the Certificates).

Undelivered Certificates; Purchase Price. If a Certificate purchased as provided in the Trust Agreement and described above is not presented to the Tender Agent, the Tender Agent will segregate and hold uninvested the money for the Purchase Price in trust for the benefit of the former Owner, who will, except as provided in the following sentences of this paragraph, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Purchase Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Purchase Price of any Certificate which remains unclaimed for two years after the date of purchase will be paid to the City.

After the payment of such unclaimed money to the City, the former Owner may look only to the City for the payment thereof. The City will not be liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

Inadequate Funds for Tenders.

If sufficient funds are not available for the purchase of all Certificates tendered or deemed tendered and required to be purchased on any Purchase Date, all Certificates will represent interest at the Maximum Rate from the date of such failed tender until all such Certificates are purchased, and all tendered Certificates will be returned to their respective Owners. Notwithstanding any other provision of the Trust Agreement, such failed purchase and return will not constitute an Event of Default.

Remarketing of Certificates; Notice of Interest Rates.

Remarketing Agent. E.J. De La Rosa & Co., Inc., will serve as the initial Remarketing Agent for the Certificates under a Remarketing Agreement dated as of _____ 1, 2009, by and between E.J. De La Rosa & Co., Inc., and the City (the "**Remarketing Agreement**"). Under the Remarketing Agreement, the Remarketing Agent has agreed to: (i) determine the interest rates applicable to the Certificates and give notice to the Trustee of such rates and periods in accordance with the Trust Agreement; (ii) keep such books and records as are consistent with prudent industry practice; and (iii) use its best efforts to remarket the Certificates in accordance with the Trust Agreement.

The Remarketing Agent will hold all amounts received by it in accordance with any remarketing of the Certificates pursuant to the Trust Agreement in trust only for the benefit of the Owners of tendered Certificates and will not commingle such amounts with any other moneys.

The City or the Remarketing Agent may terminate the Remarketing Agreement under the circumstances and in the manner described in the Remarketing Agreement upon notice to the Trustee and the City as provided in the Remarketing Agreement. Upon termination of the Remarketing Agreement, the City will appoint a replacement remarketing agent in accordance with the Trust Agreement.

Remarketing. (i) Upon a mandatory tender or notice of tender for purchase of Certificates upon the expiration of the Credit Facility when no Alternate Credit Facility is in effect or notice of tender for purchase of Certificates, the Remarketing Agent will offer for sale and use its best efforts to sell such Certificates at par, at up to the Maximum Rate on the same date designated for purchase thereof in accordance with the Trust Agreement and, if not remarketed on such date, thereafter until sold, at a price equal to that price specified in the Trust Agreement if such Certificates are Bank Certificates (but not including any premium).

Certificates subject to a mandatory tender upon termination or expiration of the Credit Facility when no Alternate Credit Facility is in effect may not be remarketed unless (A) such Certificates are in a Long-Term Interest Rate Period to their Maturity Date, (B) an Alternate Credit Facility is delivered to the Tender Agent pursuant to the Trust Agreement and is in full force and effect, or (C) the Trustee has received written notice from the Credit Facility Provider that all events of default under the Credit Facility have been cured and that the Credit Facility has been reinstated.

(ii) If at any time there are Bank Certificates, the Remarketing Agent will offer for sale and use its best efforts to sell such Bank Certificates to prospective purchasers at par and at interest rates up to and including the Maximum Rate.

Notice of Rates and Terms. The Remarketing Agent will determine the rate of interest with respect to Certificates during each Interest Rate Period and each Certificate Interest Term relating thereto and the Certificate Interest Terms for Certificates during each Short-Term Interest Rate Period relating thereto as provided in the Trust Agreement, and will furnish to the Trustee notice of each rate of interest and Certificate Interest Term so determined by telephone or telecopy, promptly confirmed in writing.

Notice of each Long-Term Interest Rate, Certificate Interest Term Rate and Certificate Interest Term so determined will be made on the date of determination; notice of each Daily Interest Rate will be made on Friday of each week and on the last Business Day of each month; and notice of each Weekly Interest Rate will be made no later than Thursday of each week.

In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

Disclosure Concerning Sales of Variable Rate Demand Obligations by Remarketing Agent

The Remarketing Agent is Paid by the City. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Certificates that are tendered by the Owners thereof for optional or mandatory purchase (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Certificates.

The Remarketing Agent Routinely Purchases Certificates for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Certificates for its own account and, in its sole discretion, may routinely acquire such tendered Certificates in order to achieve a successful remarketing of the Certificates (i.e., because there otherwise are not enough buyers to purchase the Certificates) or for other reasons. However, the Remarketing Agent is not obligated to purchase Certificates, and may cease doing so at any time without notice.

The Remarketing Agent may also make a market in the Certificates by routinely purchasing and selling Certificates other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, the Remarketing Agent is not required to make a market in the Certificates. The Remarketing Agent may also sell any Certificates it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Certificates.

The purchase of Certificates by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Certificates and may create the appearance that there is greater third party demand for the Certificates in the market than is

actually the case. The practices described above also may result in fewer Certificates being tendered in a remarketing.

Certificates May Be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Under the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Certificates bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Certificates (including whether the Remarketing Agent is willing to purchase Certificates for its own account). The purchase of the Certificates by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Certificates.

There may or may not be Certificates tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Certificates tendered for purchase on such date at par, and the Remarketing Agent may sell Certificates at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Certificates at the remarketing price. If the Remarketing Agent owns any Certificates for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Certificates on any date, including the rate determination date, at a discount to par to some investors.

The Ability to Sell the Certificates other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Certificates other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Certificates to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Certificates, whether in a remarketing or otherwise, should not assume that they will be able to sell their Certificates other than by tendering the Certificates in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Certificates, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. If there is no Remarketing Agent, the Trustee is required to apply to a court of competent jurisdiction for appointment of a successor Remarketing Agent.

Dealing in Certificates by the Authority. To the extent permitted by law, the Authority may in good faith buy, sell, own, hold and deal in any Certificates offered and sold by the Remarketing Agent pursuant to the Remarketing Agreement, and the Remarketing Agent may in good faith remarket and sell to the Authority any Certificates offered and sold by the Remarketing Agent pursuant to the Remarketing Agreement on the same basis as and without preference or priority over any other purchaser or prospective purchaser of Certificates.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

This section describes certain provisions of the Trust Agreement and Lease Agreement related to security and sources of payment for the Certificates. See "APPENDIX A – Summary of Principal Legal Documents" for a summary of other provisions of the Trust Agreement, Lease Agreement and other principal legal documents. Capitalized terms used but not defined in this section have the meanings set forth in APPENDIX A.

Nature of the Certificates

General. Each Certificate evidences and represents a direct, undivided fractional interest in (a) the principal component of the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate, and (b) the interest component of all Lease Payments (based on the stated interest rate with respect to such Certificate) to accrue from the date of original delivery of the Certificates to its payment date or prepayment date, as the case may be.

Assignment of Rights in Lease to Trustee. The Authority, under the Assignment Agreement, will assign to the Trustee for the benefit of the Certificate Owners substantially all of the Authority's right, title and interest in and to the Lease Agreement, including, without limitation, its right to receive Lease Payments to be paid by the City; except that the Authority will retain certain rights under the Lease Agreement (including the rights to Additional Payments, repayment of advances, indemnification and payment of attorneys' fees). The City will pay Lease Payments directly to the Trustee, as assignee of the Authority. See "– Lease Payments" below.

Lease Payments

Requirement to Make Lease Payments. Subject to the provisions of the Lease Agreement regarding abatement and prepayment (as described below), the City will agree in the Lease Agreement to pay to the Authority the Lease Payments (denominated into components of principal and interest) in the principal amounts specified in the Lease Agreement, and in the respective interest amounts computed in accordance with the Trust Agreement, to be due and payable in immediately available funds on the Lease Payment Date immediately preceding each Interest Payment Date, and to be deposited by the City with the Trustee on each of the Lease Payment Dates.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement, and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) will be credited toward the Lease Payment then required to be paid under the Lease Agreement. No Lease Payment need be deposited with the Trustee on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be deposited with the Trustee.

The Lease Payments payable in any Fiscal Year will be for the use of the Leased Property during that Fiscal Year.

Calculation of Lease Payments. Under the Trust Agreement, the Trustee will calculate Lease Payments using, for the Interest Periods occurring between Interest Payment Dates, the actual "**Basic Certificate Rates**" (defined as the rate of interest applicable to all Certificates

other than Bank Certificates) for such Interest Periods, and will notify the City at least one Business Day prior to each Lease Payment Date of the amount of the Lease Payment then coming due.

Fair Rental Value. The Lease Payments and Additional Payments during each Fiscal Year will constitute the total rental for the Leased Property for such Fiscal Year, and will be paid by the City 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, the Leased Property during each Fiscal Year.

The City and the Authority will agree and determine in the Lease Agreement that the total Lease Payments represent the fair rental value of the Leased Property.

In making such determination under the Lease Agreement, consideration has been given to the costs of financing and leasing of the Leased Property by the Authority, the uses and purposes which may be served by the Leased Property, and the benefits which will accrue to the Authority, the City and the general public therefrom.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Payments

In addition to the Lease Payments, the City is required under the Lease Agreement to pay "Additional Payments," which are defined as all costs and expenses incurred by the Authority to comply with the provisions of the Trust Agreement and the Reimbursement Agreement, or otherwise arising from the lease of the Leased Property, and which include the following:

- all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund),

- fees of the Credit Facility Provider, and

- indemnification and annual compensation due to the Trustee, and all of its reasonable costs payable as a result of the performance of and compliance with its duties under the Trust Agreement.

Additional Payments are payable as additional amounts of rental under the Lease Agreement in consideration of the right of the City to the use and occupancy of the Leased Property.

Source of Payments

General. Under the Lease Agreement, the City will make Lease Payments from any source of available funds of the City (subject to the provisions of the Lease Agreement regarding abatement and prepayment, as described below).

Covenant to Budget and Appropriate Lease Payments. Under the Lease Agreement, the City will covenant to take such action as may be necessary to include all Lease Payments and Additional Payments in each of its annual or biennial budgets during the Term of the Lease Agreement, and to make the necessary annual appropriations for all such Lease Payments and Additional Payments.

These covenants will be deemed to be and construed to be duties imposed by law, and it will be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Lease Payment Fund

Establishment. Under the Trust Agreement the Trustee will establish a special fund designated as the "Lease Payment Fund." All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the City and the Owners of the Certificates.

So long as any Certificates are Outstanding, neither the City nor the Authority will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

Deposits. All Lease Payments received by the Trustee will be deposited in the Lease Payment Fund.

Application of Moneys. All amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the following purposes:

(i) reimbursing the Credit Facility Provider for draws on the Credit Facility, and

(ii) if needed, paying the principal, interest and prepayment premiums (if any) represented by the Certificates as it becomes due and payable, in accordance with the provisions of the Trust Agreement.

The Trustee will transfer funds from the Lease Payment Fund to the Interest Account, the Principal Account and the Prepayment Account, as needed to pay interest and premium (if any) on, as well as the principal amount of the Certificates, as they become due and payable, to the extent draws on the Credit Facility are insufficient for such purpose, or if the Certificates are not supported by a Credit Facility.

The Trustee will give the City immediate notice by telephone, confirmed in writing, if a draw on the Credit Facility has not produced sufficient funds to pay principal of, and interest on the Certificates when due, and that the Trustee will be applying funds in the Lease Payment Account to make such payment.

Lease Payment Fund; Surplus. Any surplus remaining in the Lease Payment Fund after prepayment and payment of all Certificates, including premiums and accrued interest (if any), payment of any amounts due or to become due to the Credit Facility Provider, and payment of any applicable fees and expenses to the Trustee, or provision for such prepayment or payment having been made to the satisfaction of the Trustee, will be withdrawn by the Trustee and remitted to the City.

Certificate Payment Fund

Under the Trust Agreement the Trustee will establish a special fund designated as the "Certificate Payment Fund," which the Trustee will covenant to maintain and hold in trust separate and apart from other funds held by it as “Eligible Accounts” (as defined in the Trust Agreement) so long as any Lease Payments remain unpaid.

Within the Certificate Payment Fund the Trustee will establish an Interest Account, Principal Account and Prepayment Account, and will disburse the funds on deposit therein to pay interest, principal or Prepayment Price with respect to the Certificates when due and payable or to reimburse the Credit Facility Provider for drawings on the Credit Facility, all as set forth more fully in the Trust Agreement. See “APPENDIX A – Summary Of Principal Legal Documents.”

Action on Default

If the City defaults under the Lease Agreement, the Trustee, as assignee of the Authority’s rights under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Lease Payments thereunder on an annual basis. Lease Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS.”

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Trust Agreement, see “APPENDIX A – Summary of Principal Legal Documents.”

Abatement

Lease Payments are paid by the City for and in consideration of the right of beneficial use and occupancy of the Leased Property. If, for any reason, there is substantial interference with the use and possession of all or part of the Leased Property, the City’s obligation to make Lease Payments from its funds will be abated.

Abatement of Lease Payments is not an event of default under the Trust Agreement, the Lease Agreement or the Certificates, and will not permit the Trustee to take any action or avail itself of any remedy against the City. The City will not have an obligation to make Lease Payments with respect to the Leased Property other than from the proceeds of the Certificates or the proceeds of any rental interruption insurance until such substantial interference with the use and possession of the Leased Property, or a portion thereof, has been remedied.

See “APPENDIX A – Summary Of Principal Legal Documents.”

Abatement Due to Eminent Domain. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect with respect thereto 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 allocated thereto, in an amount to be agreed upon by the City 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 Property.

However, there will be no abatement of Lease Payments due to eminent domain to the extent that rental interruption insurance proceeds are available to pay Lease Payments that would otherwise be abated under the Lease Agreement. The Lease Agreement declares that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

Abatement Due to Damage or Destruction. The amount of Lease Payments will be abated during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The amount of the Lease Payments under such circumstances will not be greater than the fair rental value of the portions of the Leased Property not damaged or destroyed, based upon the opinion of an appraiser with expertise in valuing such properties or other appropriate method of valuation.

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, this Lease shall continue in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction.

However, there will be no abatement of Lease Payments following damage or destruction to the extent that the proceeds of hazard insurance or rental interruption insurance are available to pay Lease Payments which would otherwise be abated. The Lease Agreement declares that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

Covenant to Maintain Insurance

Comprehensive General Liability Insurance. Under the Lease Agreement, the City is required to maintain or cause to be maintained throughout the Term of the Lease Agreement, but only if and to the extent available from reputable insurers in the opinion of the City, a standard comprehensive general insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns.

This policy or policies must provide for indemnification of these 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 the Leased Property. This policy or policies must 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 (subject to a deductible or self-insured retention of not to exceed $500,000, or such larger amount as is certified as “prudent” by an Insurance Consultant), and in a minimum amount of $150,000 (subject to a deductible or self-insured retention of not to exceed $50,000)

for damage to property resulting from each accident or event. This insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks, subject to a deductible or self-insured retention of not to exceed $500,000 (or such larger amount as is certified as "prudent" by an Insurance Consultant).

This insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City (upon the conditions set forth in the Lease Agreement), subject to the provisions of the Lease Agreement regarding the form of insurance policies, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

The Net Proceeds of such liability insurance must be applied by the City toward extinguishment or satisfaction of the liability with respect to which paid.

Fire and Extended Coverage Insurance. Under the Lease Agreement the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any improvements constituting part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance.

This extended coverage insurance must, 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. This insurance must be in an aggregate amount at least equal to the replacement cost of the improvements insured thereunder or the principal amount of the Certificates outstanding, whichever is higher. All policies of such insurance may be subject to deductible clauses or self-insured retention of not to exceed 10% of the value of the insured property for any one loss.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of form of the participation by the City in a joint powers agency or other program providing pooled insurance. This insurance may not be self-insured.

Rental Interruption Insurance. Under the Lease Agreement, the City is required, on behalf of the Authority, to procure and maintain, or cause to be maintained throughout the term of the Lease Agreement, rental interruption to cover loss, total or partial, of the Lease Payments payable to the Authority, with the Trustee and the Bank named as loss payees, in an amount at least equal to the maximum amount of Lease Payments payable in any two-year period, assuming the applicable interest rate is 6%.

Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the fire and extended damage insurance described above.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance, but may not be self-insured.

The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Lease Payment Fund, and will be credited towards the payment of the Lease Payments as the same become due and payable.

Application of Net Proceeds of Insurance. Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty, or from any title insurance award, will be paid to the Trustee, as assignee of the Authority under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund established under the Trust Agreement, to be applied to the prepayment of Lease Payments and Certificates, or to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property, all pursuant to and under the conditions set forth in the Trust Agreement. See "APPENDIX A – Summary of Principal Legal Documents."

Amendment of Lease to Permit Additional Rental Payments Pledged to Additional Obligations

Under the Lease Agreement, the Authority and the City may at any time amend or modify the Lease Agreement, with the consent of the Credit Facility Provider, without the consent of the Trustee or any of the Certificate Owners, to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, provided that

(A) such additional amounts of rental do not cause the total rental payments made by the City under the Lease Agreement to exceed the fair rental value of the Leased Property, as set forth in a certificate of a City Representative filed with the Trustee and the Authority,

(B) the City obtains and files with the Trustee, the Credit Facility Provider and the Authority an appraisal of the Leased Property showing that the estimated fair market value thereof is not less than the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, and

(C) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which will be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the applicable laws of the State of California.

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The following information summarizes the Letter of Credit and Reimbursement Agreement. Reference is made to the Letter of Credit and the Reimbursement Agreement on file with the Trustee for the complete texts thereof. Capitalized terms used in this section and not otherwise defined have the meanings given in the Reimbursement Agreement. The form of Letter of Credit is attached as APPENDIX E.

The Letter of Credit

General. The purchase price of, and principal and interest evidenced by the Certificates (other than the Bank Certificates or Certificates owned by the City or the Authority) will be payable from amounts available to be drawn by the Trustee under an irrevocable, transferable direct-pay Letter of Credit issued by the Bank. See "THE BANK" below.

Concurrently with the execution and delivery of the Certificates, the Bank will deliver the Letter of Credit to the Trustee. The Trustee will be permitted to draw an aggregate amount not to exceed the principal amount of the Certificates plus interest calculated at an assumed rate of 12% for up to _____ days, based upon a 360-day year, subject to reductions and reinstatements as provided in the Letter of Credit.

Drawings on Letter of Credit. The Letter of Credit provides that the Trustee will draw upon the Letter of Credit up to the Available Amount (subject to reduction as provided in the Letter of Credit) for any of the following purposes:

(a) "**Payment Drawing**" in the form of (i) an "**Interest Drawing**" representing the payment of interest due with respect to the Certificates; (ii) a "**Partial Prepayment Drawing**" representing the payment of principal plus accrued and unpaid interest upon redemption or prepayment of less than all of the Certificates Outstanding (as defined in the Trust Agreement) and (iii) a "**Final Draft**" representing the payment of the unpaid principal and interest on Certificates either at a stated maturity, upon acceleration, or as a result of prepayment, redemption, or mandatory tender of the Certificates (other than Certificates presently held of record by the City, or the Authority or by the Trustee for the account of the City or the Authority) which Certificates are not to be remarketed again with the support of the Letter of Credit; and

(b) "**Tender Drawing**" representing the payment of unpaid principal and interest due with respect to all or less than all of the Certificates Outstanding upon tender to the Trustee for purchase pursuant to the Trust Agreement (other than Certificates presently held of record by the City or the Authority or by the Trustee for the account of the City or the Authority).

Termination. The Letter of Credit will terminate (the "**Stated Termination Date**") upon the earliest to occur of:

(i) the date on which the Bank receives written notice from the Trustee that there are no longer any Certificates Outstanding (as defined in the Trust Agreement);

(ii) the date on which the Bank honors a "Final Draft" with respect to all of the Certificates;

(iii) the close of banking business at the Bank's Los Angeles, California office on _____, 2012 (the "**Maturity Date**"). The Maturity Date may be extended from time to time by amendment to the Letter of Credit at the sole discretion of the Bank.

In addition, the Letter of Credit will terminate upon the substitution of an alternate credit facility. See "THE CERTIFICATES – Notice of Termination, Event of Default or Other Change in Credit Facility."

The Reimbursement Agreement

General. The Reimbursement Agreement, among other things, sets the terms and conditions whereby the City is required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit. The Bank has certain rights and the City has certain obligations under the Reimbursement Agreement. These rights of the Bank do not extend to the owners of the Certificates. In addition, the City's compliance with its obligations under the Reimbursement Agreement can be waived solely at the behest of the Bank.

The Reimbursement Agreement provides for, among other things, repayment by the City of amounts drawn under the Letter of Credit.

Events of Default. The occurrence of any of the following events is an "Event of Default" under the Reimbursement Agreement:

(a) The City fails to pay any amount payable under the Reimbursement Agreement when due.

(b) Any representation or warranty made, or deemed made, by or on behalf of the City (or any of its officials) in connection with this Agreement or any of the Related Documents proves to have been incorrect in any material respect when made or deemed made.

(c) The City fails to perform or observe any term, covenant or agreement contained in the section of the Reimbursement Agreement concerning negative covenants of the City, which are to be performed or observed by the City.

(d) The City fails to perform or observe any other term, covenant or agreement contained in any other section of the Reimbursement Agreement to be performed or observed by the City, and any such failure remains unremedied for 30 days after written notice thereof has been given to the City by the Bank; *provided, however,* that if in the reasonable opinion of the City the default stated in the written notice can be corrected, but not within such 30-day period, such default will not constitute an Event of Default under the Reimbursement Agreement if the City commences to cure such default within such 30-day period and thereafter diligently and in good faith cures such default in a reasonable period of time; provided, that such grace period may not exceed 60 days without the consent of the Bank.

(e) The City defaults in the payment of any Debt (other than Debt arising under the Reimbursement Agreement), whether such Debt now exists or hereafter is created, and any period of grace with respect thereto has expired, or an event of default as defined in any mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced, any Debt, whether such Debt now exists or may be hereafter created, occurs, which default in payment or event of default

results in such Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable.

(f) An order for relief is entered against the City under the Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order continues undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, trustee, liquidator or custodian of the City or of its property, or for the winding up or liquidation of its affairs, is entered, and such decree or order remains in force undischarged and unstayed for a period of 90 days.

(g) The City institutes a voluntary case, or consents to the institution of an involuntary case against it, or files a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable Federal or State law, or consents to the filing of any such petition, or consents to the appointment of a receiver, trustee, liquidator or custodian of it or of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due, or corporate action is taken by the City in furtherance of any of the aforesaid purposes.

(h) Any provision of the Reimbursement Agreement or any of the Related Documents to which the City is a party at any time for any reason ceases to be valid and binding on the City, or is declared to be null and void, or the validity or enforceability thereof is contested by the City, or the City denies that it has any or further liability or obligation under the Reimbursement Agreement.

(i) Any “Event of Default” under and as defined respectively in the Trust Agreement, the Lease, the Site Lease or the Assignment Agreement or any other Related Document occurs and continues.

(j) Any event which materially and adversely affects the financial condition of the City or the ability of the City to observe and perform the terms of the Reimbursement Agreement occurs and continues.

If any Event of Default occurs and is continuing, Bank may (but is not obligated to) by notice to the City, declare the Letter of Credit to be terminated, and (i) give notice to the Trustee pursuant to the Trust Agreement requesting the Trustee to declare a mandatory tender of all Certificates then outstanding and all interest accrued and unpaid thereon to be due and payable, (ii) take such action as may be necessary to cure such Event of Default on behalf and for the account of the City, (iii) require immediate payment in full by the City of any payment or amount owed or to be owed by the City to Bank under the Reimbursement Agreement, (iv) exercise any and all of the rights available to it under the Trust Agreement or any Related Documents, and (v) exercise any other rights and remedies available to it at law or in equity or under any other agreement.

It is understood that, upon the occurrence of an Event of Default, Bank may exercise its rights with respect to remedies available to it under the Trust Agreement or any of the other Related Documents, all without limiting or restricting Bank's ability, at a later date, to exercise its rights with respect to any remaining revenues for payment of any remaining indebtedness of the City to the Bank.

Under the Reimbursement Agreement, "**Related Documents**" is defined as the Letter of Credit, the Certificates, the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement, the Custody Agreement, the Remarketing Agreement, the Certificate Purchase Agreement or any other agreement or instrument relating thereto.

THE BANK

The following information has been furnished by the Bank for use in this Official Statement. No representation is made by the City as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof.

Union Bank, N.A. ("**Union Bank**") is the primary banking subsidiary of Union BanCal Corporation ("**Corporation**"), a bank-holding company based in San Francisco. As of September 30, 2008, The Bank of Tokyo-Mitsubishi UFJ, Ltd., owned approximately 64 percent of the Corporation's common stock.

Effective November 4, 2008, the Corporation became a wholly owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ Ltd. On December 18, 2008, the Corporation announced that it had legally changed the name of Union Bank of California, N.A. to Union Bank, N.A. Bank customers will not be impacted by the legal name change, in terms of the effectiveness of contracts and other important documents bearing the Union Bank of California name, which will remain in force.

Union Bank is a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies, and major corporations. Union Bank is California's fifth largest bank by deposits, with 335 banking offices in California, Oregon and Washington, and 2 international offices.

As of December 31, 2008 (unaudited), the Corporation had loans totaling $49.6 billion, total assets of $70.1 billion and total deposits of $46.0 billion. For twelve months ending December 31, 2008, net income was $268.9 million compared with $608.1 million for the same period in 2007. Copies of the latest annual report and the most recent quarterly report may be obtained at www.uboc.com or at Union Bank's Los Angeles office, located at 445 South Figueroa Street, Los Angeles, California 90071.

THE CITY AND THE AUTHORITY

The City

The City of Sunnyvale was incorporated December 24, 1912, and the original City charter became effective on May 18, 1949.

The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested with the City Council. There are seven Council Members elected by seat number for staggered four-year terms, with a two-term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The City Manager and City Attorney are appointed by the City Council.

The City provides the full range of municipal services contemplated by its charter. These include police and fire protection, library services, construction and maintenance of streets, parks, storm drains and other infrastructure, human services, recreational programs and community development activities. The City also operates water, wastewater, and solid waste municipal utilities.

See APPENDIX C for additional demographic information regarding the City and the County of Santa Clara.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement, dated September 29, 1992 (the "**JPA Agreement**"), between the City and the Redevelopment Agency of the City of Sunnyvale. The JPA Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California.

The Authority was created to facilitate the financing of public improvements and facilities within the City.

The Authority is administered by a governing board composed of the Mayor and the members of the City Council, and City staff members serve as staff to the Authority. The Authority has no independent staff.

CITY FINANCIAL INFORMATION

City Budgeting and Planning Process

The City's approach to budget preparation is a central part of the City's Planning and Management System (PAMS). Key elements of the PAMS framework include:

- Long-term financial planning (includes projections over a 20-year time frame for revenues, operations, projects, debt and reserves),
- Short-term allocation of resources (the two-year action budget),
- Performance measurement of service delivery,

The City uses long-term financial planning to ensure stability through ups and downs in economic cycles. City fiscal policy requires that the City Manager annually propose a budget that is balanced not only for the budget year, but also for the Twenty-Year Resource Allocation Plan. The long-term nature of the City's financial planning system allows decision-makers to better understand the true impact of policy decisions. It effectively requires that decisions, when made, will not adversely impact resources that otherwise would be needed to provide quality services in the future. This long-term planning horizon stabilizes service levels during the upturns and downturns of economic cycles.

Long-term financial planning enables the City to recognize revenue and expenditure trends and to take the actions necessary to assure that a particular fund remain in balance. The General Fund's Long-Term Financial Plan incorporates two financial strategies to achieve this goal.

First, the General Fund contains a Contingencies Reserve which is set by a City Council-adopted fiscal policy at 20% of each fiscal year's operating budget. This reserve is intended to cover unanticipated emergencies or disasters rather than funding shortfalls created as a result of economic cycles. The Contingencies Reserve has not been drawn upon since it was established.

Second, the General Fund includes a Budget Stabilization Fund (formerly entitled the 20-Year Resource Allocation Plan Reserve), also mandated by City Council-adopted fiscal policy. The purpose of the Budget Stabilization Fund is to address the impact of economic cycles from year to year so as to maintain stable service levels and to phase in future service reductions, if necessary.

The funding level of the Budget Stabilization Fund varies each year. In periods of economic growth, funding levels in the Budget Stabilization Fund will increase; in periods of economic decline, the City will draw down on the Budget Stabilization Fund. The Budget Stabilization Fund, along with the General Fund's Long-Term Financial Plan, effectively prevents the City during periods of economic growth from adding services that cannot be sustained during economic downturns.

For example, the City's economy experienced a downturn in fiscal year 2003-04 due to the effects of the "dot com" bust. Prior to that time, the City added to the Budget Stabilization Fund rather than increase service levels. In Fiscal Year 2002-03, the Budget Stabilization Fund had grown to approximately $61 million. In the Fiscal Year 2003-04 Budget, General Fund

expenditures exceeded General Fund revenues by approximately $15 million. The City funded this shortfall from the Budget Stabilization Fund. It rebalanced the General Fund for each year over the ensuing twenty-year planning period through a combination of fee increases and targeted expenditure reductions.

The General Fund began Fiscal Year 2008-09 with a balance of $58.5 million in the Budget Stabilization Fund. The City anticipated a drawdown of approximately $15 million to make a one-time contribution of $10 million to the Employee Benefits Fund for retiree medical costs as part of the City's other post-employment benefit funding plan and to offset a projected decline in General Fund revenues due to the downturn in the economy.

Due to the larger than anticipated economic meltdown, the City currently anticipates a further $12 million reduction in General Fund revenues for the current fiscal year and a structural gap between revenues and expenditures of about $13 million annually in the future. The City is revising the General Fund's Long-Term Financial plan to address this projected shortfall with three major strategies. First, it plans drawdowns of the Budget Stabilization Fund in each of the next several years. Second, it plans to reduce personnel costs including salaries, benefits, and positions. Finally, it plans to implement other expenditure reductions and operational efficiencies.

The anticipated effect of these strategies is to rebalance General Fund revenues with expected expenditures over the long term, including an anticipated increase in retirement costs beginning in Fiscal Year 2011-12. Thereafter, the Budget Stabilization Fund is projected to increase or decrease depending upon the economic cycle.

The City practices two-year budgeting for its operating programs, in recognition of the tremendous effort needed to develop budgets, particularly with the City's sophisticated performance-based budget system. Under this approach, the City prepares its capital improvement budget in alternating years.

Comparison of General Fund Budgets. The table below sets forth a comparison of the City's general fund budgets for the current and prior Fiscal Years.

TABLE 1
CITY OF SUNNYVALE
Approved General Fund Budgets For Fiscal Years 2007-08 and 2008-09
And Actual Results for Fiscal Year 2007-08

	Approved Budget 2007-08	Actual 2007-08 [1]	Approved Budget 2008-09
Revenues			
Property Tax	38,742,251	$38,948,749	$40,022,455
Sales Tax	31,393,880	29,705,343	31,698,822
Transient Occupancy Tax	7,381,136	7,350,255	7,466,938
Utility Users Tax	6,989,035	6,840,342	7,097,321
Permits/Licenses	9,014,078	9,265,468	7,032,776
Other Revenues	42,360,054	44,269,573	25,094,645
Total Revenues	135,880,434	136,379,730	126,206,842
Expenditures			
Operations	113,369,337	113,458,414	119,301,634
Equipment	176,300	9,415	0
Debt Service	408,969	408,969	179,010
Projects	14,285,840	5,987,782	9,271,876
Other	1,687,200	2,063,067	1,791,226
Total Expenditures	129,927,646	121,927,647	130,543,746
Other Sources (Uses)			
Operating Transfers In	7,774,972	7,792,877	8,275,534
Operating Transfers Out	(6,212,847)	(6,227,492)	(16,781,577)
Total Other Sources (Uses)	1,562,125	1,565,385	(8,506,043)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	7,514,913	$16,017,468	($12,842,947)
Fund Balance, Beginning of Year	82,707,115	$82,707,115	$98,724,584
Fund Balance, End of Year	90,222,028	$98,724,584	$85,881,637

[1] Based on audited financial results, categorized to conform to the budget categories.
Source: City of Sunnyvale.

Financial Statements

Accounting Policies. The accounting policies of the City conform to generally accepted accounting principles as applied to governmental agencies. The City's annual financial reports are prepared in accordance with the Governmental Accounting Standards Board ("**GASB**") Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on requirements for financial reporting for all governmental agencies in the United States.

Basis of Accounting and Measurement Focus. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon

the purpose for which they are to be spent and the means by which spending activities are controlled.

The government-wide financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Audited Financial Statements. The City's most recent audited financial statements for the Fiscal Year ending June 30, 2008, which are attached as APPENDIX B to this Official Statement, were prepared by the City and audited by Maze & Associates, Pleasant Hill, California (the "**Auditor**").

The Financial Statements should be read in their entirety. *The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City or its General Fund. In addition, the Auditor has not reviewed this Official Statement.*

General Fund Revenues, Expenditures and Changes in Fund Balances

Set forth below is a statement of revenues, expenditures and changes in fund balances for the City's general fund for the last four fiscal years.

TABLE 2
CITY OF SUNNYVALE
Statement of General Fund Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30

	2004-05	2005-06	2006-07	2007-08
Revenues:				
Property Tax	31,561,137	34,093,807	35,815,933	38,948,749
Sales Tax	24,917,237	28,421,883	30,852,313	29,705,343
Transient Occupancy Tax	5,073,824	5,633,159	6,479,842	7,350,255
Utility Users Tax	5,832,872	6,057,141	6,479,038	6,840,342
Permits & Licenses	4,995,591	5,779,850	7,041,600	9,265,468
Other	26,610,491	23,118,253	32,750,798	39,457,759
Total revenues	98,991,152	103,104,093	119,419,524	131,567,916
Expenditures:				
Operations	96,275,709	101,592,129	109,335,179	113,458,414
Equipment	83	3,630	23,700	9,415
Debt Service	411,323	409,128	412,778	408,969
Projects	4,581,573	3,023,145	5,656,547	5,987,782
Other	1,212,208	1,210,558	1,699,902	2,063,067
Total expenditures	102,480,896	106,238,590	117,128,106	121,927,647
Excess of revenues over (under) expenditures	(3,489,744)	(3,134,497)	2,291,418	9,640,269
Other financing sources (uses):				
Transfers in	7,257,653	10,062,558	8,162,442	7,896,358
Transfers out	4,361,485	5,990,425	5,776,953	6,227,492
Total other financing sources (uses)	2,896,168	4,072,133	2,385,489	1,668,866
Special Item (Proceeds of Land Sale)	-	635,000	3,483,130	4,708,333
Net Change in Fund Balance	$(593,576)	$1,572,636	$8,160,037	$16,017,468
Fund balance - Beginning of Year	$73,784,879	$73,193,534	$74,547,078	$82,707,115
Fund balance - End of Year	$73,191,303	$74,766,171	$82,707,114	$98,724,584

Source: City of Sunnyvale Audited Financial Statements.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

In Fiscal Year 2007-08, the major General Fund revenues included:

Property Tax	$38,948,749	28.56%
Sales and Use Tax	29,705,343	21.78%
Other Taxes	20,642,152	15.14%
Permits and Licenses	9,265,468	6.79%
	Subtotal:	72.27%

In Fiscal Year 2007-08, the major General Fund expenditures included:

Public Safety	64,378,271	52.80%
Planning and Management	16,885,073	13.85%
Community Development	6,083,060	4.99%
	Subtotal:	71.64%

Property Taxes

General. Property taxes represented the largest source of general fund revenue to the City in Fiscal Year 2007-08. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" and "RISK FACTORS – Property Taxes" for a description of risks associated with the levy and collection of property tax revenues.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13 in 1979, property tax revenues were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever was less.

ERAF Shift and Triple Flip Legislation. Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in the Education Revenue Augmentation Fund ("**ERAF**"), a shift that has resulted in diversion of City property taxes since fiscal year 1992-93. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – State Budget" and "RISK FACTORS – State Budget."

As discussed below under the heading "–Sales and Use Taxes," on March 2, 2004, the State's voters approved a bond initiative known as the "California Economic Recovery Act" which includes provisions known as "Triple Flip" legislation, calling for a diversion of a portion of local governments' share of sales taxes to the State, and in return, a redirection of certain property taxes from the ERAF to local government.

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – State Budget."

Levy and Collection. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as "**secured**" or "**unsecured**" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record 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 interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

No Teeter Plan. Santa Clara County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), under which the County guarantees that a municipality will receive 100% of the taxes levied for it. However, the City has elected *not* to participate in the Teeter Plan, meaning that the City's tax receipts reflect actual collections.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

Assessed Valuation History. The summary below presents a 10-year history of the assessed value of property within the City.

TABLE 3
CITY OF SUNNYVALE
Assessed Valuation
Fiscal Years 1999-00 through 2008-09

Fiscal Year	Local Secured	Unitary	Unsecured	Total Before Redevelopment Increment	Total After Redevelopment Increment
1999-00	$11,988,755,524	$582,537	$1,911,527,934	$13,900,865,995	$13,692,988,263
2000-01	12,911,429,838	525,935	1,933,588,029	14,845,543,802	14,629,371,302
2001-02	14,469,877,931	575,800	2,515,860,419	16,986,314,150	16,754,522,736
2002-03	15,023,640,094	554,367	2,970,203,822	17,994,398,283	17,724,847,688
2003-04	15,779,900,668	633,095	2,626,992,640	18,407,526,403	18,077,783,620
2004-05	15,846,089,065	789,976	2,073,522,841	17,920,401,882	17,575,452,291
2005-06	16,505,349,614	736,859	2,721,166,724	19,227,253,197	18,891,294,883
2006-07	18,604,610,343	605,833	2,107,246,863	20,712,463,039	20,286,397,804
2007-08	20,494,882,505	0 [1]	2,172,593,285	22,667,475,790	22,208,349,728
2008-09	22,404,113,227	0 [1]	2,321,144,140	24,725,257,367	23,983,169,007

[1] Effective January 1, 2007, the State Board of Equalization implemented a new county-wide system for assessment and revenue allocation for state-assessed unitary railroad property. The purpose of the new system is to simplify the administration and distribution of the property tax as it applies to unitary railroad property, consistent with all other state-assessed unitary property.
Source: California Municipal Statistics Inc.

Assessed Value Reductions and Appeals. According to information released by the County Assessor's Office on April 3, 2009, an analysis conducted by the Assessor with regard to assessed value appeals under Proposition 8 identified over 90,000 properties, primarily homes and condominiums, that will be valued less than their purchase price therefore, qualifying for a reduction in the property's assessment. The total number of properties is more than double over the previous year. The market value as of January 1, 2009, of approximately 20% percent of all single family homes and one-third of all condominiums have declined below their purchase price. To date, the aggregate reduction exceeds $18 billion, the largest decrease in County history. The average reduction for a home increased from $78,000 last year to $181,000. Additional reductions are anticipated between now and July 1, 2009, when the assessment roll is officially completed.

Significant reductions in assessed values of property within the City will cause a corresponding decline in property tax revenues. See "RISK FACTORS – Property Taxes."

Property Tax Collections and Delinquencies. The following table is a five-year history of *ad valorem* property tax levies, dollars delinquent and delinquency rates on property within the City.

TABLE 4
CITY OF SUNNYVALE
Property Tax Collection and Delinquency Rates
Fiscal Years 2002-03 through 2007-08

Fiscal Year	Secured Tax Charge	Amount Collected	Amount Unpaid	% Delinquent	As of Date
2003-04	$183,659,188.40	$178,172,477.96	$5,486,710.44	2.99%	May 3, 2004
2004-05	187,920,555.80	180,240,972.36	7,679,583.44	4.09	May 10, 2005
2005-06	210,649,502.18	204,838,508.50	5,810,993.68	2.76	May 17, 2006
2006-07	233,477,359.72	226,093,548.18	7,383,811.54	3.16	May 23, 2007
2007-08	256,326,469.62	249,446,496.80	6,879,972.82	2.68	June 30, 2008

Source: California Tax Data.

Major Property Taxpayers. The following table shows the top 20 local secured property taxpayers for the current Fiscal Year.

TABLE 5
CITY OF SUNNYVALE
Top Twenty Local Secured Taxpayers
Fiscal Year 2008-09

	Property Owner	Primary Land Use	2008-09 Assessed Valuation	% of Total (1)
1.	Lockheed Missiles and Space Co. Inc.	Industrial	$ 547,805,036	2.45%
2.	Applied Materials Inc.	Industrial	479,124,911	2.14
3.	Yahoo Inc.	Office Building	462,632,954	2.06
4.	Network Appliance Inc.	Industrial	427,384,803	1.91
5.	Spansion LLC	Industrial	333,185,119	1.49
6.	SPF Mathilda LLC	Office Building	272,000,000	1.21
7.	Arden Realty LP	Industrial	213,940,681	0.95
8.	Bay Apartment Communities Inc.	Apartments	198,797,703	0.89
9.	Downtown Sunnyvale Mixed Use LLC	Commercial	145,373,175	0.65
10.	Moffett Park Dr. LLC	Industrial	141,868,389	0.63
11.	AMB Property LP / AMB Institutional Alliance Fund II & III LLC	Industrial	140,991,424	0.63
12.	Silicon Valley CA I LLC	Industrial	138,399,210	0.62
13.	Irvine Company	Industrial	127,007,909	0.57
14.	Carr NP & CRHP Properties LLC	Industrial	124,950,000	0.56
15.	Menlo & Juniper Networks LLC	Industrial	121,808,706	0.54
16.	Maxim Integrated Products Inc.	Industrial	120,503,718	0.54
17.	Sunnyvale Office Park LP	Office Building	116,732,870	0.52
18.	BNP Paribas Leasing Corp.	Industrial	96,850,000	0.43
19.	W2005 RPS Realty LLC	Industrial	95,370,000	0.43
20.	1963 Charles John Olson Trust	Apartments	94,029,293	0.42
			$4,398,755,901	19.63%

[1] 2008-09 Local Secured Assessed Valuation: $22,404,113,227
Source: California Municipal Statistics, Inc.

Sales and Use Taxes

Sales and use taxes represented the second largest source of general fund revenue to the City for Fiscal Year 2007-08. This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State. See "RISK FACTORS – Sales Taxes" for a description of risks associated with the collection of sales tax revenues.

Background Regarding Sales and Use Taxes. Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State.

Collection of the sales and use tax is administered by the California State Board of Equalization. Additional information about State sales and use taxes can be found on the State Board of Equalization's website at http://www.boe.ca.gov/. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement.*

Sales Tax Rates. Under the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"), cities are entitled to an allocation of sales tax revenues equal to 1.00% of taxable sales within their jurisdiction.

In fiscal year 2005, the State issued Economic Recovery Bonds as part of the solution to its record budget deficit. As security for these bonds, the State temporarily changed the local sales tax allocation from 1.00% to 0.75% and replaced the reduction of local sales tax with a dollar-for-dollar allocation of local property tax from the County Educational Revenue Augmentation Fund ("**ERAF**"). The exchange mechanism will be in place as long as the State's bonds are outstanding. True-up reconciliations between the actual amounts and the State estimates are done each year in October, and the actual property tax distribution is scheduled for January of the following year. The net effect of this exchange on the City is that property tax is remitted twice a year while sales tax is remitted monthly; this causes a reduction in overall interest earnings and a potential cash flow impact. See "RISK FACTORS – Sales Taxes."

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the sales tax, and makes distributions of sales taxes collected within the City, as follows:

TABLE 6
CITY OF SUNNYVALE
Sales Tax Rates
Fiscal Year 2008-09

State (General Fund)	4.75%
State (Fiscal Recovery Fund)	0.25
State (Local Revenue Fund)	0.50
State (General Fund)	0.25%
State (Local Public Safety Fund)	0.50
State (General Fund) [1]	1.00%
Local (County Transportation)	0.25
Local (City and County Operations)	0.75
Subtotal: Statewide Base Sales Tax	8.25%
Local (City of Sunnyvale)	1.00
Total Sales Tax Rate	9.25%

[1] The State budget for Fiscal Year 2009-10 added this 1.00% component to the , effective April 1, 2009. The duration of this increase will depend on the outcome of State ballot measure, Proposition 1A, to be decided by the voters on May 19, 2009. If the measure fails, the increase will lapse on July 1, 2011; if it passes, the increase will be extended to July 1, 2012.

Source: California State Board of Equalization.

History of Taxable Transactions. The following table presents a summary of historic taxable sales reported within the City for calendar year 2003 through calendar year 2007, as compiled by the State Board of Equalization. Figures are not yet available for 2008. Given the current economic downturn, it is likely that taxable sales transactions declined in 2008.

TABLE 7
CITY OF SUNNYVALE
Taxable Retail Sales
(Dollars in Thousands)

	2003	2004	2005	2006	2007
Retail Stores					
Apparel Stores	$ 14,924	$ 14,989	$ 15,553	$ 16,982	$ 17,560
Gen. Merchandise Stores	176,441	184,281	195,484	206,904	214,827
Food and Drug Stores	59,842	55,426	55,890	57,350	61,171
Eating and Drinking Places	154,367	160,863	170,558	185,542	205,469
Home Furnishings/App.	19,655	17,447	28,826	28,469	28,963
Bldg. Materials/Farm Impts	116,093	135,069	143,096	180,970	205,614
Auto Dealer/ Auto Supplies	331,135	349,992	366,993	404,022	441,466
Service Stations	86,060	101,082	113,392	131,539	147,416
Other Retail Stores	184,661	221,291	205,076	247,812	250,521
Retail Store Totals	1,143,178	1,240,440	1,294,868	1,459,590	1,573,007
All Other Outlets	790,412	835,285	900,310	1,117,778	1,118,016
TOTAL ALL OUTLETS	$1,933,590	$2,075,725	$2,195,178	$2,577,368	$2,691,023

Source: State Board of Equalization.

Outstanding General Fund Debt and Other Obligations

For additional information regarding the City's outstanding long-term general fund debt and lease obligations, see APPENDIX B.

Long-Term Obligations. The City is currently obligated to make lease payments supporting debt service on the following outstanding lease revenue certificates of participation. (The table below does not include the Certificates currently being issued, which are payable from lease payments secured by General Fund revenue sources.)

Bond Caption	Issuance Date	Original Principal Amount	Outstanding Principal Amount (as of June 30, 2008)	Final Maturity	Notes
1997 ABAG Certificates of Participation	Aug. 7, 1997	$1,935,000	$930,000	Aug. 1, 2013	Payable from rental revenue received from the Sunnyvale School District
1998 Parking Facility, Series A, Certificates of Participation	Mar. 6, 1998	$17,525,000	$12,830,000	Oct. 1, 2022	Debt service is reimbursed by the Sunnyvale Redevelopment Agency
2001 Government Center Certificates of Participation	Apr. 5, 2001	$18,710,000	$15,930,000	Apr. 1, 2031	Being prepaid and defeased in full with the proceeds of the Certificates. See "FINANCING PLAN" above.

Direct and Overlapping Bonded Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective March 1, 2009. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

TABLE 8
CITY OF SUNNYVALE
Statement of Direct and Overlapping Bonded Debt

2008-09 Assessed Valuation:	$24,725,257,367
Redevelopment Incremental Valuation:	742,088,360
Adjusted Assessed Valuation:	$23,983,169,007

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/09
Foothill-De Anza Community College District	22.709%	$109,536,700
West Valley Community College District	4.823	3,876,969
Santa Clara Unified School District	14.021	39,553,942
Fremont Union High School District	48.116	100,119,773
Mountain View-Los Altos Union High School District	0.802	295,490
Cupertino Union School District	14.646	18,184,330
Los Altos School District	0.268	252,882
Mountain View School District	2.036	601,835
Sunnyvale School District	99.059	86,146,308
El Camino Hospital District	36.797	53,657,385
City of Sunnyvale Community Facilities District No. 1	100.	18,660,000
Santa Clara Valley Water District Benefit Assessment District	8.853	13,862,913
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$444,748,527
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Santa Clara County General Fund Obligations	8.853%	$ 78,115,773
Santa Clara County Pension Obligations	8.853	34,453,647
Santa Clara County Board of Education Certificates of Participation	8.853	1,367,346
Santa Clara County Vector Control Certificates of Participation	8.853	378,466
Foothill Community College District Certificates of Participation	22.709	5,955,435
Santa Clara Unified School District Certificates of Participation	14.021	1,819,926
Mountain View-Los Altos Union High School District Certificates of Participation	0.802	55,178
Cupertino Union School District Certificates of Participation	14.646	347,843
Mountain View School District Certificates of Participation	2.036	10,791
City of Sunnyvale Certificates of Participation	**100.**	**28,965,000** (1)
Midpeninsula Regional Open Space Park District General Fund Obligations	15.406	17,974,647
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$169,444,052
COMBINED TOTAL DEBT		$614,192,579 (2)

(1) Excludes certificates of participation to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:
Total Overlapping Tax and Assessment Debt..... 1.80%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($28,965,000) 0.12%
Combined Total Debt 2.56%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $0

Source: California Municipal Statistics, Inc.

Employee Relations

The City employs 890 full-time and regular part-time employees, and approximately 546 casual seasonal employees. The City directly provides municipal services including police and fire protection, libraries, water and wastewater utility services, parks and recreation, traffic engineering, street maintenance and other public infrastructure, land use planning and general administrative services. There are four employee associations, as shown below.

Labor Organization	Number of Employees	Contract Expiration Date
Sunnyvale Employees' Association	487	June 30, 2012
Public Safety Officers' Association	212	June 30, 2010
Communication Officers' Association	19	December 31,2010
Service Employees' International Union - Local #715	50	June 30, 2012
Sunnyvale Management Association	70	Currently in negotiation

Insurance

The City has established various self-insurance programs and maintained contracts with various insurance companies to manage excessive risks.

The City has $40,000,000 in excess general liability coverage, subject to $500,000 self-insured retention (for each occurrence, through California Joint Powers Risk Management Authority, a risk-sharing pool.

The City's excess workers' compensation coverage is provided through the California State Association of Counties Excess Insurance Authority; the coverage provides $300,000,000 in excess workers' compensation, subject to $500,000 self-insured retention for each occurrence.

Unemployment claims paid by the State are reimbursed dollar-for-dollar by the City.

For additional information regarding the City's insurance programs, see APPENDIX B.

Employee Retirement System

Plan Description. All permanent City employees participate in the California Public Employees' Retirement System (PERS) per the City charter.

PERS is an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within California. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries.

Employees vest after five years of service and are eligible to receive benefits at age 50 for safety and miscellaneous (non-safety) employees. State statutes and City ordinance establish benefit provisions, which are reflected in a contract between the City and PERS.

Copies of PERS's annual financial report may be obtained from its executive office in Sacramento.

Funding Policy. For Fiscal Year 2007-08, miscellaneous participants were required to contribute 8% of annual covered salary, and safety participants were required to contribute 11.25% of their annual covered salary. The City made the contributions required of City employees on their behalf and for their account for 7% of annual salary for miscellaneous participants and the full contribution for safety participants. The total contribution on behalf of employees amounted to $6,884,990 for Fiscal Year 2007-08.

The City is required to make actuarially determined employer contributions necessary to fund the benefits for its members. For Fiscal Year 2007-08, the City contribution was 16.699% for miscellaneous employees and 28.978% for safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established annually and may be amended by PERS.

Annual Pension Cost (APC). For Fiscal Year 2007-08, the City's annual pension cost of $17,274,385 was equal to the City's required and actual contributions. Originally the required employer contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The required employer contribution rates for this year were later amended at the City's request to avoid negative amortization of the unfunded actuarial accrued liability. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period.

The PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2005, was 25 years for miscellaneous and 32 years for safety employees for prior and current service unfunded liability.

In June 2007 the City Council approved an amendment to the contract between PERS and the City for the miscellaneous plan. See APPENDIX B for further information regarding PERS funding.

Trend Information. Trend information on City pension funding for the most recent three Fiscal Years is shown below.

Fiscal Year Ending	Annual Pension Cost: Miscellaneous Plan	Annual Pension Cost: Safety Plan	Total Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/06	$5,977,597	$8,774,922	$14,752,519	100%	$-0-
6/30/07	6,436,205	8,193,013	14,629,218	100%	$-0-
6/30/08	8,827,288	8,447,097	17,274,385	100%	$-0-

Other Post-Employment Benefits

General. During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented in the audited financial statements of the City and summarized below. See "APPENDIX B."

Plan Description. The City's retired employees' postemployment healthcare plan is a multiple-employer defined benefit plan, provided through the California Public Employees' Retirement System (PERS) under the California Public Employees' Medical and Hospital Care Act (PEMHCA).

Employees who are vested in PERS and who retire from the City are eligible to receive postemployment health benefits. The City remits to PERS the employer's share of the insurance premium on a monthly, pay-as-you-go basis. The City's Employee Benefits Internal Service Funds hold assets set aside for the payment of City's OPEB obligations (see "APPENDIX B, Audited Financial Statements of the City, Note 14, Classification of Net Assets").

The City has not yet participated in the California Employers' Retiree Benefit Trust (CERBT) Fund – an irrevocable trust established by PERS to pre-fund OPEB. The City Council has approved a resolution for the City to enter the CERBT. The specific timing of the entry into the trust depends on current market environment.

Copies of PERS's annual financial report may be obtained from its executive office in Sacramento, California.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City Council. Under the PEMHCA, public agencies contracting with PERS for medical coverage are required to make equal contribution towards the cost of medical coverage for retirees and active employees. The City contributes the lower of the insurance premium or a dollar amount as agreed with the respective bargaining units. The limits range from $284 to $517 monthly for Fiscal Year 2007-08.

For management employees, the City also maintains a retiree health reimbursement program, providing the retiree a monthly reimbursement amount equal to the difference between the City contribution and the retiree's medical premium for their selected plan. Management employees appointed on or after July 1, 2007, are subject to a vesting schedule with City reimbursement ranging from 50% to 100% after at least five years of management service. The City contributed, on a pay-as-you-go basis, $3,694,500 to the OPEB plan during Fiscal Year 2007-08.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) of $7,633,000 was calculated based on the annual required contribution of the employer (ARC), an amount determined as part of the June 30, 2006 actuarial valuation in accordance with the parameters of GASB Statement 45.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost

trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2006, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits) and an annual healthcare cost trend rate of 12% (PPO) and 11% (HMO) initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. Both rates include a 3.0% inflation assumption.

The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years. It is assumed that the City's payroll will increase 3.25% per year. The City reported no net OPEB obligation (liability) or net OPEB asset at the beginning of the Fiscal Year 2007-08.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed 30 years. For Fiscal Year 2007-08, the ARC was approximately 10% of total projected payroll.

The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

	June 30, 2008
Annual required contribution (ARC)	$7,633,000
Interest on net OPEB obligation	-0-
Adjustment to annual required contribution	-0-
Annual OPEB cost (expense)	7,633,000
Contributions made	(3,694,500)
Increase in net OPEB obligation	3,938,500
Net OPEB obligation - beginning of year	-0-
Net OPEB obligation - end of year	$3,938,500

For the year ended June 30, 2008, the percentage of annual OPEB cost contributed to the plan by the City was 48.4%.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIIIA to the State Constitution ("**Article XIIIA**"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Appropriation Limitation - Article XIIIB

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the State Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIIIB in certain respects. Under Article XIIIB, as amended, state and local government entities each have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of most tax revenues and certain state subventions, together called

"proceeds of taxes," and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of monies which are excluded from the definition of "appropriations limit," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two thirds of the voters. The "appropriations limit" is adjusted annually for changes in the cost of living and in population, for transfers in the financial responsibility for providing services, and in the case of certain declared emergencies. If an entity receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the entity's governing board, increase its appropriations limit to equal that amount (provided that the State has excess appropriations limit of its own in that fiscal year).

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("**Unitary Property**"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in Santa Clara County Local Transportation Authority v. Guardino, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. The City believes that all of the taxes constituting City revenues are levied in compliance with Proposition 62.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and

community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments with in a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

State Budgets

The State of California is currently facing enormous budget shortfalls, and is likely to continue to face significant budget issues for the foreseeable future. In connection with its approval of former budgets, the State Legislature enacted legislation that has a direct impact on the financial situation of cities and counties in the State. However, with the passage of Proposition 1A in 2004 (described above), cities are currently protected from direct impacts on revenues resulting from State budget difficulties.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted.

The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement.

The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.

The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

***2009-10 Adopted State Budget*.**

February 19, 2009. The California Legislature voted to approve a budget package (the "Budget Package") addressing the State's $42 billion deficit, which includes $15 billion in State spending reductions, $12.8 billion in temporary tax increases (including an increase in the vehicle license fee and an increase in State sales and income taxes), $11.4 billion in borrowing and a $1 billion reserve. The Budget Package includes revisions to the 2008-09 Budget and adoption of the 2009-10 Budget, covering a 17-month period ending July 1, 2010, addressing spending reductions, revenue increases, economic stimulus and increasing governmental

efficiency. Certain measures will require voter approval at a special State-wide election to be held on May 19, 2009.

February 20, 2009. The Governor signed the Budget Package. The Governor used his line item veto authority in an attempt to achieve $1 billion more in State General Fund savings in the 2009-10 Budget. This includes at least a 10 percent reduction in expenditures for certain State offices through furlough days, elimination of positions, overtime reform and reducing paid State holidays, replacing State General Fund appropriations with respect to higher education with federal funds, and finding savings through reforms and cost-saving measures with the California Department of Corrections and Rehabilitation.

March 13, 2009 LAO Report. On March 13, 2009, the LAO updated its revenue forecast and projects that revenues will fall short of the assumptions in the 2009-10 Budget by $8 billion.

May 19, 2009 Election. According to the LAO, the 2009-10 Budget depends on access to approximately $6 billion related to three propositions on the May 19, 2009 special election ballot: $5 billion from borrowing against future lottery profits (Proposition 1C), up to $608 million from redirecting dedicated childhood development funds to help the General Fund (Proposition 1D), and approximately $230 million from redirecting dedicated mental health funds to help the General Fund (Proposition 1E). If the voters reject these three measures, the 2009-10 Budget would not be in balance under current revenue forecasts. Consequently, the Legislature and the Governor probably would need to agree to billions of dollars of additional spending cuts, tax increases or other budgetary solutions to bring the budget back into balance.

Future State Budgets. The City cannot predict what actions will be taken in the current or future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay Lease Payments.

Future Initiatives

Article XIIIA, Article XIIIB and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting the City or its revenues or the City's ability to expend revenues.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Limited Obligation; Voter Approval Requirements

The obligation of the City to make lease payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Lease Payments constitutes a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments and Additional Payments from any source of legally available funds (subject to certain exceptions), and the City has covenanted in the Lease Agreement that it will make the necessary annual appropriations within its budget for all Lease Payments and Additional Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIIIC and Article XIIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. Although the City does not currently anticipate that the provisions of Article XIIIC and Article XIIID of the State Constitution would adversely affect its ability to pay the principal of and interest with respect to the Certificates as and when due and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIIC and Article XIIID of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Additional Obligations of the City

Under the Lease Agreement the City is permitted to enter into other obligations which constitute additional charges against its other revenues without the consent of Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased Property) are payable from any funds lawfully available to the City. If the amounts the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Default; No Acceleration

Whenever any event of default referred to in the Lease Agreement happens and continues, the Trustee, as the assignee of the Authority, is authorized under the terms of the Lease Agreement to exercise any and all remedies available under law or granted under the Lease Agreement. **There is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then due or past due to be immediately due and payable. Neither the Authority nor the Trustee has any right to re-enter or re-let the Leased Property except following the occurrence and during the continuation of an event of default under the Lease Agreement.** Following an event of default, the Authority may elect either to terminate the Lease Agreement and seek to collect damages from the City or to maintain the Lease Agreement in effect and seek to collect the Lease Payments as they become due. The Lease Agreement further provides that so long as an event of default exists under the Lease Agreement, the Authority, or its assignee, may re-enter the Leased Property for the purpose of taking possession of any portion of the Leased Property and to re-let the Leased Property and, in addition, at its option, with or without such entry to terminate the Lease Agreement as described therein. See "APPENDIX A – Summary Of Principal Legal Documents – The Lease Agreement."

No assurance can be given that the Trustee will be able to re-let the Leased Property so as to provide rental income sufficient to pay principal and interest evidenced by the Certificates in a timely manner or that such re-letting will not adversely affect the exclusion of interest with respect thereto from gross income for federal or State income tax purposes. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to the Leased Property.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Certificates or pay debt service with respect thereto. The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Property Taxes

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City's property tax revenues and have an adverse effect on the City's ability to pay principal and interest with respect to the Certificates when due.

Reduction in Inflationary Rate. Article XIIIA of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIIIA limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary

rates, which were less than 2%. The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future. See "CITY FINANCIAL INFORMATION – Property Taxes."

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

Proposition 8 Appeals. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. However, current case law is uncertain as to whether or not property may be adjusted to its prior value at once or if adjustments may only be made subject to the 2% limitation. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIA of the California Constitution – Litigation Regarding 2% Limitation."

Base Year Appeals. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Sales Taxes

The City's allocation of sales tax revenues is directly dependent on the volume of taxable transactions within the City. Adverse economic conditions, such as the current economic downturn, can reduce this source of revenue to the City. No assurance can be given that sales tax revenues will continue at the levels seen in recent years, or that sales tax revenues will not decline in the foreseeable future as a result of the current economic crisis and downturn in the economy.

State Budget

In connection with its approval of recent budgets, the State Legislature enacted legislation which, among other things, reallocated funds from certain taxing entities to school districts by shifting a portion of each entity's property tax revenues to school districts for such fiscal years, for deposit in the State's ERAF. The City cannot predict whether the State Legislature or the voters will enact legislation in future years requiring further shifts of property taxes to the State or to schools, whether through an arrangement similar to ERAF or by any other arrangement, or requiring other shifts in sales taxes or other City revenue sources. Given the level of the State of California's deficit, it is possible that the City's property tax revenues may be reduced in the future. See "CITY FINANCIAL INFORMATION."

Natural Disasters

General. The areas in and surrounding the City, like those in much of California, may be subject to unpredictable seismic activity and other natural disasters, including, without limitation, landslides, floods, droughts, or fires. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of property taxes.

Earthquakes. Like many areas of California, the City is subject to seismic activity. According to the Seismic Safety and Safety Sub-Element of the Community Development Element of the City's General Plan, the City is located in close proximity to two known active fault zones, the San Andreas Fault zone 7 miles to the south of the City's Civic Center, and the Hayward fault zones 10 miles to the northeast. The City could be at risk from strong ground motion and secondary effects, including ground failure (such as landslide, liquefaction, lateral spreading, lurching and differential settlement) and seismically induced flooding (such as flooding from a tsunami, seiche or dam failure).

Floods. According to the Seismic Safety and Safety Sub-Element of the Community Development Element of the City's General Plan, the sources of flooding that can threaten the City include excessive precipitation and surface runoff, tidal flooding due to levee breaks, dam failure, and seismically induced flooding. The City does not maintain flood insurance on the Leased Property.

Limitations on Remedies; Bankruptcy

The rights of the owners of the Certificates are subject to the limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and enforcement of the City's obligations under the Lease Agreement, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the

State. Bankruptcy proceedings under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights. See "– Default; No Acceleration" above.

Secondary Market

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that any Certificates can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Certificates will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Certificates for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Certificates or obligations that present similar tax issues as the Certificates.

LEGAL OPINION

The proceedings in connection with the authorization, sale, execution and delivery of the Certificates are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel for the City. A copy of the legal opinion, certified by the official in whose office the original is filed, will be attached to each Certificate.

Certain legal matters will be passed upon for the City by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel, and by the City Attorney.

PROFESSIONAL FEES

The fees of Special Counsel, Disclosure Counsel, the Financial Advisor, the Trustee and the Underwriter are contingent upon the execution and delivery of the Certificates.

TAX MATTERS

General. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however, to the qualifications set forth below, under existing law, the interest evidenced and represented by the Certificates 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.

The opinions set forth in the preceding sentence are subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be satisfied subsequent to the execution and delivery of the Certificates in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of execution and delivery of the Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Certificates with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Certificates.

In the further opinion of Special Counsel, the interest evidenced and represented by the Certificates is exempt from California personal income taxes.

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

Form of Opinion. Special Counsel expects to deliver an opinion at the time of execution and delivery of the Certificates in substantially the same form set forth in APPENDIX D hereto.

NO LITIGATION

To the best knowledge of the City there is no action, suit or proceeding known to be pending, or threatened, restraining or enjoining the execution or delivery of the Certificates, the Trust Agreement, the Lease Agreement, the Site Lease, the Assignment Agreement or any other document relating to the Certificates or in any way contesting or affecting the validity of the foregoing.

In the opinion of the City, such suits and claims as are presently pending will not have a material adverse affect on the ability of the City to make Lease Payments.

RATINGS

Moody's Investors Service ("Moody's") has assigned its short term rating of "___" to the Certificates and its long-term rating of "__" to the Certificates, and Standard & Poor's, a Division of McGraw-Hill Companies ("S&P"), has assigned its short term rating of "___" to the Certificates and its long-term rating of "__" to the Certificates. These ratings are based on the understanding that the Bank will deliver the Credit Facility concurrently with execution and delivery of the Certificates. The long-term ratings on the Certificates are based on the rating agencies' analyses of the credit strength of both the Bank and the City. The short-term ratings on the Certificates are based on the rating agencies' analyses of the credit strength of only the Bank.

In addition, Moody's has assigned an underlying rating of "___" to the Certificates, and S&P has assigned an underlying rating of "___" to the Certificates.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective 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. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. The City has not undertaken any responsibility either to bring to the attention of the owners of the Certificates any proposed change in or withdrawal of a rating, or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of any rating on the Certificates or the Bank may have an adverse effect on the market price or marketability of the Certificates.

UNDERWRITING

The Certificates are being purchased by E.J. De La Rosa & Co., Inc. (the "**Underwriter**"). The Underwriter has agreed to purchase the Certificates at a price of $_____ (which is equal to the aggregate principal amount of the Certificates, less an Underwriter's discount of $_____). The Certificate Purchase Contract pursuant to which the Underwriter has agreed to purchase the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Certificate Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

NO CONTINUING DISCLOSURE

As of the Closing Date, the Certificates are exempt from the continuing disclosure provisions set forth in Rule 15c2-12 (the "**Rule**") as promulgated and amended by the Securities and Exchange Commission under the Securities Exchange Act of 1934 because the Certificates will be issued in minimum denominations of $100,000 and may be tendered by the holders thereof at a price of at least par not less frequently than every nine months. The Certificates, however, will be subject to the Rule if the Certificates are in the future converted to Fixed Rate Certificates.

EXECUTION

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

CITY OF SUNNYVALE

By: _____
Director of Finance

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY

APPENDIX C

GENERAL INFORMATION ABOUT THE CITY OF SUNNYVALE AND THE COUNTY OF SANTA CLARA

The following information concerning the City of Sunnyvale and the County of Santa Clara is included only for the purpose of supplying general information regarding the area in and around the City. The Certificates are not a debt of the City, the County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

Population

The City was incorporated on December 24, 1912 and its charter first became effective on May 18, 1949. The City is located 44 miles south of San Francisco on the San Francisco Bay peninsula, 10 miles northwest of San Jose.

The City is home to Silicon Valley high-tech industry leaders in fields ranging from advanced satellite construction to pioneering biotechnology; from semiconductor research, design and manufacturing to leading edge telecommunications systems.

The City operates under a Council-Manager form of government. The City is managed by a City Manager, who is appointed by the City Council (the "Council"). All municipal departments operate under the supervision of the City Manager, except for the City Attorney who is appointed by the Council. Seven Council members are elected at-large for numbered seats and serve staggered four-year terms. The Council elects one of its members to serve as mayor. The City Charter limits members of the Council to serving two consecutive terms.

Population

The following chart indicates the change in population for the City, Santa Clara County and the State of California for the last five years.

CITY OF SUNNYVALE
Population Estimates
Calendar Years 2004 through 2008

Calendar Year	City of Sunnyvale	County of Santa Clara	State of California
2004	132,242	1,783,374	36,245,016
2005	132,555	1,752,653	36,728,196
2006	134,142	1,780,449	37,195,240
2007	135,514	1,805,314	37,559,440
2008	137,538	1,837,075	38,049,462

Source: State Department of Finance estimates (as of January 1)

Employment and Industry

The City is included in the San Jose Metropolitan Statistical Area (MSA), which includes Santa Clara County. The County civilian labor force figures are shown in the following table.

These figures are County-wide and may not necessarily accurately reflect employment trends in the City.

SAN JOSE METROPOLITAN STATISTICAL AREA
Annual Average Labor Force and Industry Employment

	2004	2005	2006	2007	2008
Civilian Labor Force [1]	853,800	849,000	859,500	880,300	899,900
Employment	797,900	802,800	820,200	838,000	844,100
Unemployment	55,900	46,200	39,300	42,300	55,800
Civilian Unemployment Rate	6.5%	5.4%	4.6%	4.8%	6.2%
Wage and Salary Employment: [2]					
Agriculture	6,700	6,300	6,200	6,200	6,200
Natural Resources and Mining	100	200	300	300	300
Construction	43,000	44,500	46,800	47,000	45,200
Manufacturing	167,200	164,900	163,700	166,000	167,200
Wholesale Trade	34,500	35,800	38,300	39,700	40,200
Retail Trade	82,900	83,900	85,800	86,700	85,400
Transportation, Warehousing and Utilities	13,500	13,100	13,000	13,500	13,800
Information	32,600	35,300	37,500	39,500	40,500
Finance and Insurance	20,700	21,300	22,100	21,800	21,000
Real Estate, Rental and Leasing	14,700	15,000	15,000	15,300	14,800
Professional and Business Services	165,600	165,800	172,000	177,700	178,200
Educational and Health Services	95,000	96,800	100,400	102,200	104,500
Leisure and Hospitality	70,900	72,800	75,200	76,100	75,400
Other Services	25,000	24,600	24,800	25,100	25,500
Federal Government	11,400	11,300	11,100	11,000	11,000
State Government	7,500	7,400	7,500	7,600	7,500
Local Government	77,300	77,200	77,900	78,500	79,800
Total All Industries [3]	868,700	876,300	897,400	914,300	916,600

[1] Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
[2] Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
[3] Totals may not add due to rounding.
Source: State of California Employment Development Department.

Largest Employers

The following tables list the largest private employers within the City and their estimated number of employees.

CITY OF SUNNYVALE
Largest Private Employers
June 30, 2008

Employer	Employment	Type of Business
Lockheed Martin Western Development	7,375	Space systems
Yahoo! Inc.	4,906	Online network of integrated services
Juniper Networks Inc.	2,187	Network Infrastructure
Network Appliance Inc.	2,133	Storage and data management
Maxim Integrated Products	1,800	Analog and mixed-signal engineering
Spansion LLC	1,256	Flash memory
Northrop Grumman Marine Systems	1,200	Global defense system
Palm Inc.	858	Mobile products
Synopsys Inc.	714	Semiconductor design software
Advanced Micro Devices Inc.	702	Semiconductor design

Source: City of Sunnyvale.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County of Santa Clara, the State and the United States for the period 2003 through 2007.

CITY OF SUNNYVALE
EFFECTIVE BUYING INCOME
2003 through 2007

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2003	City of Sunnyvale	n/a	n/a
	Santa Clara County	$ 46,787,053	$62,584
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	City of Sunnyvale	n/a	n/a
	Santa Clara County	$ 47,476,338	$62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Sunnyvale	$ 3,949,363	$63,817
	Santa Clara County	46,910,278	63,293
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Sunnyvale	$ 4,155,455	$66,038
	Santa Clara County	49,261,000	65,458
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Sunnyvale	$ 4,420,005	$68,530
	Santa Clara County	52,377,985	67,498
	California	814,894,438	48,203
	United States	6,300,794,040	41,792

Source: Sales & Marketing Management Survey of Buying Power for years 2003 and 2004; Claritas Demographics for 2005 through 2007.

Commercial Activity

During calendar year 2007, total taxable transactions in the City were reported to be $2,691,023,000, or 4.4% greater than total taxable transactions of $2,577,368,000 that were reported in the City during calendar year 2006. A summary of historic taxable sales within the City during the past five years is shown in the following table. Annual figures are not yet available for 2008.

CITY OF SUNNYVALE
Taxable Transactions
(Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2003	1,449	$1,143,178	3,496	$1,933,590
2004	1,405	1,240,440	3,530	2,075,725
2005	1,320	1,294,868	3,401	2,195,178
2006	1,347	1,459,590	3,369	2,577,368
2007	1,320	1,573,007	3,320	2,691,023

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Building Permit Activity

The following table shows the number and value of building permits issued in the City during calendar years 2003 through 2007.

CITY OF SUNNYVALE
Building Permit Valuation
For Calendar Years 2003 through 2007
(Dollars in Thousands)

	2003	2004	2005	2006	2007
Permit Valuation					
New Single-family	$14,571.7	$58,874.2	$34,272.7	$54,557.5	$56,154.3
New Multi-family	27,728.2	12,223.9	0.0	0.0	0.0
Res. Alterations/Additions	32,218.3	30,673.8	44,207.2	44,983.1	38,459.4
Total Residential	74,518.2	101,771.9	78,480.0	99,540.6	94,613.7
New Commercial	15,091.7	6,370.6	23,195.7	30,566.8	248,328.8
New Industrial	0.0	16,000.0	0.0	56,873.3	47,958.5
New Other	3,8454.3	1,908.7	1,675.4	2,003.3	3,033.5
Com Alterations/Additions	86,299.3	51,696.6	113,736.9	108,046.9	158,298.9
Total Nonresidential	105,236.3	75,976.1	138,608.0	197,490.2	457,619.8
New Dwelling Units					
Single Family	70	323	170	264	317
Multiple Family	202	89	0	0	0
TOTAL	272	412	170	264	317

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D

FORM OF PROPOSED OPINION OF SPECIAL COUNSEL

APPENDIX E

FORM OF LETTER OF CREDIT

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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

Neither the issuer of the Certificates (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (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 each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

3. 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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

6. Redemption notices shall 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 the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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).

8. Redemption proceeds, distributions, and dividend 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Tender Agent or Remarketing Agent, as applicable, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Tender Agent or Remarketing Agent, as applicable. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the DTC account of the Tender Agent or Remarketing Agent, as applicable.

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

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.