NEW ISSUE — BOOK-ENTRY ONLY | **RATINGS: (See "RATINGS" herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code (the "Code"). In the further opinion of Bond Counsel, interest on the Series A Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel also observes that interest on the Series B Bonds is **not** excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."*

$151,135,000
SACRAMENTO CITY FINANCING AUTHORITY

$95,900,000
2006 Capital Improvement Revenue Bonds, Series A
(Community Reinvestment Capital Improvement Program)

$55,235,000
2006 Taxable Capital Improvement Revenue Bonds, Series B
(Community Reinvestment Capital Improvement Program)

Dated: Date of Delivery | **Due: December 1, as shown on inside cover**

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

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

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

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

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

Payment of the principal and interest on the Series A Bonds maturing on December 1 in each of the years 2010 through 2026, both years inclusive, on December 1, 2031 and on December 1, 2036 (the "Insured Series A Bonds") when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Insured Series A Bonds. See "BOND INSURANCE" herein.

Ambac

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

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

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority and the City by the City Attorney of the City of Sacramento, and by Orrick, Herrington & Sutcliffe LLP, in its capacity as Authority Bond Counsel and City Special Counsel, and for the Underwriters by Nixon Peabody LLP, San Francisco, California. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about June 15, 2006.

Merrill Lynch & Co.

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

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

Dated: June 1, 2006

Maturity Schedule

$95,900,000

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

$54,825,000 Serial Bonds

Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number	Maturity (Dec. 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number
2007	$2,455,000	4.00%	3.56%	785849SC5	2017*	$2,060,000	4.25%	4.22%**	785849SN1
2008	2,555,000	4.00	3.60	785849SD3	2018*	2,150,000	4.25	4.29	785849SP6
2009	2,650,000	4.00	3.67	785849SE1	2019*	2,240,000	5.00	4.34**	785849SQ4
2010*	2,765,000	4.00	3.63	785849SF8	2020*	2,355,000	4.25	4.40	785849SR2
2011*	2,870,000	3.75	3.69	785849SG6	2021*	2,445,000	4.25	4.43	785849SS0
2012*	2,975,000	4.00	3.79	785849SH4	2022*	2,555,000	5.00	4.44**	785849ST8
2013*	3,095,000	4.00	3.89	785849SJ0	2023*	2,680,000	5.00	4.47**	785849SU5
2014*	3,220,000	4.25	4.00	785849SK7	2024*	2,820,000	5.00	4.50**	785849SV3
2015*	3,360,000	4.50	4.09	785849SL5	2025*	2,960,000	5.00	4.52**	785849SW1
2016*	3,510,000	4.50	4.16	785849SM3	2026*	3,105,000	5.00	4.54**	785849SX9

$18,045,000 5.00% Term Bonds due December 1, 2031*, Yield 4.61%, CUSIP† No. 785849SY7**

$23,030,000 5.00% Term Bonds due December 1, 2036*, Yield 4.66%, CUSIP† No. 785849SZ4**

$55,235,000

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

$9,370,000 Serial Bonds

Maturity (Dec. 1)	Principal Amount	Interest Rate	Price	CUSIP† Number	Maturity (Dec. 1)	Principal Amount	Interest Rate	Price	CUSIP† Number
2007	$720,000	5.40%	100.00	785849TA8	2012	$ 960,000	5.65%	100.00	785849TF7
2008	765,000	5.47	100.00	785849TB6	2013	1,000,000	5.70	100.00	785849TG5
2009	805,000	5.52	100.00	785849TC4	2014	1,060,000	5.74	100.00	785849TH3
2010	855,000	5.56	100.00	785849TD2	2015	1,120,000	5.78	100.00	785849TJ9
2011	900,000	5.61	100.00	785849TE0	2016	1,185,000	5.80	100.00	785849TK6

$7,060,000 5.89% Term Bonds due December 1, 2021, Priced at 100.00, CUSIP† No. 785849TL4

$38,805,000 5.98% Term Bonds due December 1, 2036, Priced at 100.00, CUSIP† No. 785849TM2

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* Insured.

** Priced to par call on December 1, 2016.

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

The information set forth herein has been obtained from the Authority, the City and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applicable to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of results or other expectations contained in forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor the City plan to issue any updates or revisions to those forward-looking statements in any event.

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

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MAYOR AND CITY COUNCIL

AND

SACRAMENTO CITY FINANCING AUTHORITY BOARD

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

CITY OF SACRAMENTO

City Personnel and Authority Staff

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

SPECIAL SERVICES

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

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

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OFFICIAL STATEMENT

$151,135,000
SACRAMENTO CITY FINANCING AUTHORITY

$95,900,000	**$55,235,000**
2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program)	**2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program)**

INTRODUCTION

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

Purpose

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide certain information concerning the issuance by the Sacramento City Financing Authority (the "Authority") of its 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the "Series A Bonds") in the aggregate principal amount of $95,900,000 and its 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program) (the "Series B Bonds" and together with the Series A Bonds the "Bonds") in the aggregate principal amount of $55,235,000. The Bonds are being issued to provide funds (i) to finance public capital improvements and redevelopment projects within the City of Sacramento and related working capital expenditures, (ii) to fund reserve subaccounts for the Bonds and (iii) to pay costs of issuance of the Bonds. See "THE PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the Government Code of the State (the "Act"), a resolution of the Authority adopted on May 23, 2006 and a resolution of the City of Sacramento (the "City") adopted on May 23, 2006 and an Indenture, dated as of June 1, 2006 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The City will enter into the Program Obligation (as described below) pursuant to and in accordance with its charter, applicable laws of the State and the foregoing resolutions.

The Authority

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

Security for the Bonds

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

The Program Obligation and the Master Project Lease

The Program Obligation, payment on which secures repayment of the Bonds, consists of a Sixth Amendment to Master Project Lease, dated as of June 1, 2006 (the "Sixth Amendment to Master Project Lease") between the Authority and the City. The Sixth Amendment to Master Project Lease amends a Master Project Lease, dated as of December 1, 1999, as amended (the "Master Project Lease") between the Authority and the City, pursuant to which the City leases various real properties and improvements thereon from the Authority. See APPENDIX C – "THE MASTER LEASED PROPERTY." The Sixth Amendment to Master Project Lease adds to the real properties and improvements leased under the Master Project Lease (the real properties and improvements so added constitute the "2006 Leased Property"). The Sixth Amendment to Master Project Lease requires the City to make scheduled base rental payments (the "2006 Base Rental Payments") to the Authority for the lease of the 2006 Leased Property. The 2006 Base Rental Payments are calculated to be equal to the scheduled debt service on the Bonds. Payments required to be made by the City pursuant to the Master Project Lease (including the 2006 Base Rental Payments) (the "Base Rental Payments") secure the series of bonds issued by the Authority listed in the table appearing under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Master Project Lease – General." All Base Rental Payments are payable on a parity pursuant to the Master Project Lease. The City has covenanted under the Master Project Lease to make the necessary annual appropriations for all such Base Rental Payments from its General Fund; provided that Base Rental Payments may be abated during any period in which, by reason of material damage or destruction or condemnation there is substantial interference with the use and possession by the City of the leased facilities. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Master Project Lease," "RISK FACTORS – Factors Affecting the City's Ability to Make Payments from its General Fund Under the Master Project Lease – Abatement" and APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Master Project Lease and the First through Sixth Amendments to Master Project Lease" for a discussion of certain provisions of the Master Project Lease.

The Master Site Lease

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

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

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

The City may, pursuant to the terms of the Master Project Lease, incur obligations payable from sources of funds on a parity with the sources of funds to be used for the payment of obligations under the Master Project Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Master Project Lease – General” and APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Project Lease and the First through Sixth Amendments to Master Project Lease.”

Bonds Constitute Limited Obligations

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

Bond Insurance

Payment of the principal and interest on the Series A Bonds maturing on December 1 in each of the years 2010 through 2026, both years inclusive, on December 1, 2031 and on December 1, 2036 (the "Insured Series A Bonds") when due will be insured by a financial guaranty insurance policy (the "Insurance Policy") issued by Ambac Assurance Corporation (the "Bond Insurer" or "Ambac Assurance") simultaneously with the delivery of the Insured Series A Bonds. See "BOND INSURANCE" herein.

Continuing Disclosure

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

Summaries Not Definitive; Definitions

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

Additional Information

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Information in such publicly available reports is not incorporated herein by reference. Any Bondowner may obtain a copy of any such report, as available, from the Trustee or the City. Additional information regarding this Official Statement may be obtained by contacting the Trustee or:

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

THE PLAN OF FINANCE

General

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

Community Improvement Capital Reinvestment Program and Other Projects

The City will apply approximately $115,000,000 of the Bond proceeds to pay the costs of various capital improvement projects within the City most of which constitute part of the City's Community Reinvestment Capital Improvement Program (collectively, the "City Projects") and related working capital expenses. The City Projects may include, but are not limited to, construction of and improvements to libraries, theaters, museums, parks, transportation facilities, community centers, animal shelters, playgrounds, auditoriums and infrastructure. Certain of the City Projects may be financed through grants or loans from the City to nonprofit corporations. The City may apply a portion of the Bond proceeds to pay the cost of various other capital improvement projects at the discretion of the City Council.

Advance to Redevelopment Agency

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources:	Series A	Series B	Total
Principal Amount of Bonds	$95,900,000.00	$55,235,000.00	$151,135,000.00
Net Original Issue Premium	2,281,179.10	--	2,281,179.10
Total Sources	$98,181,179.10	$55,235,000.00	$153,416,179.10
Uses:			
Deposit to Series A Program Account(1)	$89,807,859.79	--	$89,807,859.79
Deposit to Series B Program Account (1)	--	$50,691,556.90	50,691,556.90
Deposit to Series A Reserve Subaccount	6,926,700.00	--	6,926,700.00
Deposit to Series B Reserve Subaccount	--	4,001,923.00	4,001,923.00
Costs of Issuance(2)	1,446,619.31	541,520.10	1,988,139.41
Total Uses	$98,181,179.10	$55,235,000.00	$153,416,179.10

(1) To be used to finance public capital improvements within the City of Sacramento.

(2) Includes underwriters' discount, legal fees, financing and consulting fees, fees of bond counsel, bond insurance premium for the Insured Series A Bonds, printing costs, rating agency fees and other miscellaneous expenses.

THE BONDS

General

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

The Bonds will be delivered in fully registered form only, and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest on the Bonds to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See APPENDIX G – "BOOK ENTRY ONLY SYSTEM" herein for a further description of DTC and its book-entry system.

Redemption of the Series A Bonds

Optional Redemption. The Series A Bonds maturing on or before December 1, 2016 are not subject to optional redemption prior to maturity. The Series A Bonds maturing on or after December 1, 2017 are subject to optional redemption by the Authority prior to their respective stated maturity dates as a whole or in part on any date on or after December 1, 2016, from any source of available funds, at a redemption price equal to the principal amount of the Series A Bonds or portions thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium.

Mandatory Sinking Fund Redemption. The Series A Bonds maturing on December 1, 2031 and December 1, 2036 are subject to mandatory sinking fund redemption by the Authority prior to their respective stated maturity dates, in part on December 1 of each year set forth below, solely from sinking fund payments set forth below due and payable on such dates, at a redemption price equal to the principal amount thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium (subject to modification in the event of optional redemption as described above or extraordinary redemption as described below):

Series A Bonds Maturing
December 1, 2031

Sinking Fund Payment Date (December 1)	Principal Amount
2027	$3,265,000
2028	3,430,000
2029	3,600,000
2030	3,780,000
2031†	3,970,000

† Final Maturity.

Series A Bonds Maturing
December 1, 2036

Sinking Fund Payment Date (December 1)	Principal Amount
2032	$4,165,000
2033	4,380,000
2034	4,595,000
2035	4,820,000
2036†	5,070,000

† Final Maturity.

Extraordinary Redemption. The Series A Bonds are subject to extraordinary redemption by the Authority prior to their respective stated maturity dates on any date in part in integral multiples of five thousand dollars ($5,000) principal amount so that the annual amounts of the interest and principal of the Bonds that are allocable to the payment of Base Rental Payments which shall be payable after such redemption date shall be as nearly proportional as practicable to the annual amounts of the interest and principal then payable on all revenue bonds issued by the Authority that are payable from Base Rental Payments then Outstanding, from prepaid Base Rental Payments made by the City from the eminent domain proceeds or net insurance proceeds received under the Master Project Lease under the circumstances and upon the conditions and terms prescribed in the Master Project Lease, at a redemption price equal to the greater of (a) the principal amount of such Series A Bonds to be redeemed and (b) one hundred percent (100%) of the Amortized Value of such Series A Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption.

"Amortized Value" means an amount equal to the principal amount of the Series A Bonds to be redeemed as described in the preceding paragraph multiplied by the price of such Series A Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date of the date of redemption, a maturity date of the stated maturity date, the optional redemption provisions, if any, of such Series A Bonds and a yield equal to such Series A Bonds' original reoffering yield set forth on the inside cover of this Official Statement.

Redemption of the Series B Bonds

Optional Redemption. The Series B Bonds are subject to optional redemption by the Authority prior to their respective stated maturity dates as a whole or in part on any date from any source of available funds, at a redemption price equal to the Make Whole Redemption Price.

"Make Whole Redemption Price" means a redemption price equal to the greater of (i) one hundred percent (100%) of the principal amount of the Series B Bonds to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series B Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points), plus in each case, accrued and unpaid interest on the Series B Bonds being redeemed to the date fixed for redemption.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series B Bond, the US Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series B Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series B Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a Series B Bond, (1) the average of the Reference Treasury Deal Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. and their respective successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series B Bond, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series B Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price.

Mandatory Sinking Fund Redemption. The Series B Bonds maturing on December 1, 2021 and December 1, 2036 are subject to mandatory sinking fund redemption by the Authority prior to their stated maturity date, in part on December 1 of each year set forth below, solely from sinking fund payments set forth below due and payable on such dates, at a redemption price equal to the principal amount thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without a redemption premium (subject to modification in the event of optional redemption as described above or extraordinary redemption as described below):

Series B Bonds Maturing
December 1, 2021

Sinking Fund Payment Date (December 1)	Principal Amount
2017	$1,255,000
2018	1,335,000
2019	1,410,000
2020	1,485,000
2021†	1,575,000

† Final Maturity.

Series B Bonds Maturing December 1, 2036	
Sinking Fund Payment Date (December 1)	**Principal Amount**
2022	$1,670,000
2023	1,770,000
2024	1,875,000
2025	1,985,000
2026	2,105,000
2027	2,235,000
2028	2,370,000
2029	2,510,000
2030	2,655,000
2031	2,820,000
2032	2,985,000
2033	3,160,000
2034	3,355,000
2035	3,550,000
2036†	3,760,000

† Final Maturity.

Extraordinary Redemption. The Series B Bonds are subject to extraordinary redemption by the Authority prior to their respective stated maturity dates on any date in part in integral multiples of five thousand dollars ($5,000) principal amount so that the annual amounts of the interest and principal of the Bonds that are allocable to the payment of Base Rental Payments which shall be payable after such redemption date shall be as nearly proportional as practicable to the annual amounts of the interest and principal then payable on all revenue bonds issued by the Authority that are payable from Base Rental Payments then Outstanding, from prepaid Base Rental Payments made by the City from the eminent domain proceeds or net insurance proceeds received under the Master Project Lease under the circumstances and upon the conditions and terms prescribed in the Master Project Lease, at a redemption price equal to the Make Whole Redemption Price (as previously defined).

General Redemption Provisions

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

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

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

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

DEBT SERVICE SCHEDULE

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

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Debt Service Schedule

Payment Date	2006 A Bonds Principal	2006 A Bonds Interest	2006 B Bonds Principal	2006 B Bonds Interest	Semi-Annual Debt Service	Annual Debt Service
12/1/2006	-	$2,060,290.55	-	$1,505,579.65	$3,565,870.20	$3,565,870.20
6/1/2007	-	2,234,050.00	-	1,632,556.25	3,866,606.25	
12/1/2007	$2,455,000.00	2,234,050.00	$720,000.00	1,632,556.25	7,041,606.25	10,908,212.50
6/1/2008	-	2,184,950.00	-	1,613,116.25	3,798,066.25	
12/1/2008	2,555,000.00	2,184,950.00	765,000.00	1,613,116.25	7,118,066.25	10,916,132.50
6/1/2009	-	2,133,850.00	-	1,592,193.50	3,726,043.50	
12/1/2009	2,650,000.00	2,133,850.00	805,000.00	1,592,193.50	7,181,043.50	10,907,087.00
6/1/2010	-	2,080,850.00	-	1,569,975.50	3,650,825.50	
12/1/2010	2,765,000.00	2,080,850.00	855,000.00	1,569,975.50	7,270,825.50	10,921,651.00
6/1/2011	-	2,025,550.00	-	1,546,206.50	3,571,756.50	
12/1/2011	2,870,000.00	2,025,550.00	900,000.00	1,546,206.50	7,341,756.50	10,913,513.00
6/1/2012	-	1,971,737.50	-	1,520,961.50	3,492,699.00	
12/1/2012	2,975,000.00	1,971,737.50	960,000.00	1,520,961.50	7,427,699.00	10,920,398.00
6/1/2013	-	1,912,237.50	-	1,493,841.50	3,406,079.00	
12/1/2013	3,095,000.00	1,912,237.50	1,000,000.00	1,493,841.50	7,501,079.00	10,907,158.00
6/1/2014	-	1,850,337.50	-	1,465,341.50	3,315,679.00	
12/1/2014	3,220,000.00	1,850,337.50	1,060,000.00	1,465,341.50	7,595,679.00	10,911,358.00
6/1/2015	-	1,781,912.50	-	1,434,919.50	3,216,832.00	
12/1/2015	3,360,000.00	1,781,912.50	1,120,000.00	1,434,919.50	7,696,832.00	10,913,664.00
6/1/2016	-	1,706,312.50	-	1,402,551.50	3,108,864.00	
12/1/2016	3,510,000.00	1,706,312.50	1,185,000.00	1,402,551.50	7,803,864.00	10,912,728.00
6/1/2017	-	1,627,337.50	-	1,368,186.50	2,995,524.00	
12/1/2017	2,060,000.00	1,627,337.50	1,255,000.00	1,368,186.50	6,310,524.00	9,306,048.00
6/1/2018	-	1,583,562.50	-	1,331,226.75	2,914,789.25	
12/1/2018	2,150,000.00	1,583,562.50	1,335,000.00	1,331,226.75	6,399,789.25	9,314,578.50
6/1/2019	-	1,537,875.00	-	1,291,911.00	2,829,786.00	
12/1/2019	2,240,000.00	1,537,875.00	1,410,000.00	1,291,911.00	6,479,786.00	9,309,572.00
6/1/2020	-	1,481,875.00	-	1,250,386.50	2,732,261.50	
12/1/2020	2,355,000.00	1,481,875.00	1,485,000.00	1,250,386.50	6,572,261.50	9,304,523.00
6/1/2021	-	1,431,831.25	-	1,206,653.25	2,638,484.50	
12/1/2021	2,445,000.00	1,431,831.25	1,575,000.00	1,206,653.25	6,658,484.50	9,296,969.00
6/1/2022	-	1,379,875.00	-	1,160,269.50	2,540,144.50	
12/1/2022	2,555,000.00	1,379,875.00	1,670,000.00	1,160,269.50	6,765,144.50	9,305,289.00
6/1/2023	-	1,316,000.00	-	1,110,336.50	2,426,336.50	
12/1/2023	2,680,000.00	1,316,000.00	1,770,000.00	1,110,336.50	6,876,336.50	9,302,673.00
6/1/2024	-	1,249,000.00	-	1,057,413.50	2,306,413.50	
12/1/2024	2,820,000.00	1,249,000.00	1,875,000.00	1,057,413.50	7,001,413.50	9,307,827.00
6/1/2025	-	1,178,500.00	-	1,001,351.00	2,179,851.00	
12/1/2025	2,960,000.00	1,178,500.00	1,985,000.00	1,001,351.00	7,124,851.00	9,304,702.00
6/1/2026	-	1,104,500.00	-	941,999.50	2,046,499.50	
12/1/2026	3,105,000.00	1,104,500.00	2,105,000.00	941,999.50	7,256,499.50	9,302,999.00
6/1/2027	-	1,026,875.00	-	879,060.00	1,905,935.00	
12/1/2027	3,265,000.00	1,026,875.00	2,235,000.00	879,060.00	7,405,935.00	9,311,870.00
6/1/2028	-	945,250.00	-	812,233.50	1,757,483.50	
12/1/2028	3,430,000.00	945,250.00	2,370,000.00	812,233.50	7,557,483.50	9,314,967.00
6/1/2029	-	859,500.00	-	741,370.50	1,600,870.50	
12/1/2029	3,600,000.00	859,500.00	2,510,000.00	741,370.50	7,710,870.50	9,311,741.00
6/1/2030	-	769,500.00	-	666,321.50	1,435,821.50	
12/1/2030	3,780,000.00	769,500.00	2,655,000.00	666,321.50	7,870,821.50	9,306,643.00
6/1/2031	-	675,000.00	-	586,937.00	1,261,937.00	
12/1/2031	3,970,000.00	675,000.00	2,820,000.00	586,937.00	8,051,937.00	9,313,874.00
6/1/2032	-	575,750.00	-	502,619.00	1,078,369.00	
12/1/2032	4,165,000.00	575,750.00	2,985,000.00	502,619.00	8,228,369.00	9,306,738.00
6/1/2033	-	471,625.00	-	413,367.50	884,992.50	
12/1/2033	4,380,000.00	471,625.00	3,160,000.00	413,367.50	8,424,992.50	9,309,985.00
6/1/2034	-	362,125.00	-	318,883.50	681,008.50	
12/1/2034	4,595,000.00	362,125.00	3,355,000.00	318,883.50	8,631,008.50	9,312,017.00
6/1/2035	-	247,250.00	-	218,569.00	465,819.00	
12/1/2035	4,820,000.00	247,250.00	3,550,000.00	218,569.00	8,835,819.00	9,301,638.00
6/1/2036	-	126,750.00	-	112,424.00	239,174.00	
12/1/2036	5,070,000.00	126,750.00	3,760,000.00	112,424.00	9,069,174.00	9,308,348.00
	$95,900,000.00	$81,723,828.05	$55,235,000.00	$65,991,945.65	$298,850,773.70	$298,850,773.70

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Under the Indenture

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

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

Master Project Lease

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

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

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

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

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

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

(1) Refunded a portion of the 1999 Capital Improvement Revenue Bonds (Solid Waste and Redevelopment Projects), the 2001 Capital Improvement Revenue Bonds, Series A (Water and Capital Improvement Projects) and the 2002 Revenue Bonds, Series A (City Hall and Redevelopment Projects) and all of the 2000 Capital Improvement Revenue Bonds (City of Sacramento 2000 Public Safety and Parking Improvements).

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

Covenant to Appropriate. Under the Master Project Lease, the City covenants to take such action as may be necessary to include all Base Rental Payments (including the 2006 Base Rental Payments) and any Additional Rental Payments due under the Master Project Lease in its annual budgets and to make the necessary annual appropriations for all such rental payments; provided that Base Rental Payments may be abated during any period in which, by reason of material damage or destruction or condemnation there is substantial interference with the use and possession by the City of the leased facilities. The City agrees under the Master Project Lease to furnish to the Trustee, within ninety (90) days after the final adoption of each annual budget of the City, a certification that the annual proposed budget of the City for the fiscal year beginning on such date contains such necessary annual appropriations. See "RISK FACTORS – Factors Affecting the City's Ability to Make Payments from its General Fund Under the Master Lease – Abatement" and APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Project Lease and the First through Sixth Amendments to Master Project Lease – Annual Budgets; Reporting Requirements" herein.

Master Leased Property. The property which, from time to time, will be the subject of the Master Project Lease (the "Master Leased Property") will be selected by the City from an inventory of City-owned property required to be maintained by the City pursuant to the Master Project Lease. The City has obligated itself to maintain not less than 50% of the pool of assets comprising the Master Leased Property as assets identified as "Essential Assets." "Essential Assets" is defined in the Master Project Lease as assets necessary to provide municipal services related to the health, safety and welfare of the citizens of the City. The definition of "Essential Assets" includes, among other things, police, fire protection, transportation, solid waste, animal control, communication, infrastructure, city cemetery, parking, tree maintenance and City support and administrative facilities and utilities. Assets excluded from the definition of "Essential Assets" are assets used for leisure or cultural activities including City-owned parks, zoos, open space, golf courses, libraries, museums and learning centers. For a description of the assets that will be leased pursuant to the Master Project Lease as the date of issuance of the Bonds see APPENDIX C – "THE MASTER LEASED PROPERTY" herein.

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

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

Abatement. During any period in which, by reason of material damage or destruction or condemnation there is substantial interference with the use and possession by the City of any portion of the Master Leased Property, such interference shall first be allocated to that portion (if any) of the Master Leased Property usable by the City that was not financed or refinanced with the proceeds of any revenue bonds issued by the Authority, and thereafter Base Rental Payments due under the Master Project Lease will be abated proportionately by the fractional amount that the cost of the portion of the Master Leased Property financed or refinanced with the proceeds of any revenue bonds issued by the Authority that are payable on a parity from Base Rental Payments damaged or destroyed or condemned bears to the entire cost of the Master Leased Property. The foregoing calculation will be made by the City and set forth in writing to the Authority, the Trustee, any bond insurer then insuring any related revenue bonds and the rating agencies then insuring any related revenue bonds (including the Bonds). See "RISK FACTORS – Factors Affecting the City's Ability to Make Payments from its General Fund Under the Master Project Lease – Abatement" and APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Project Lease and the First through Sixth Amendment to Master Project Lease – Rental Abatement" herein.

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

Reserve Subaccounts. Pursuant to the Indenture, there is established within the Reserve Account in the Revenue Fund a Reserve Subaccount for each Series of Bonds. Bond proceeds shall be deposited in each such Reserve Subaccount in an amount equal to the Reserve Requirement for the related Series of Bonds (which amount is initially $6,926,700 for the Series A Bonds and is initially $4,001,923 for the Series B Bonds upon delivery of the Bonds). See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions." Except for withdrawals of amounts in excess of the applicable Reserve Requirement as provided in the Indenture, amounts held in each Reserve Subaccount may be used and withdrawn solely for the purpose of paying any deficiency in 2006 Base Rental Payments with respect to the related Series of Bonds. The City agrees in the Sixth Amendment to Master Project Lease that, if ever either Reserve Subaccount is drawn upon, the first 2006 Base Rental Payments made thereafter shall be used to restore such Reserve Subaccount to an amount equal to the applicable Reserve Requirement; provided, that after the related Series of Bonds are no longer Outstanding under the Indenture, any balance of money remaining in the related Reserve Subaccount shall be transferred to such other fund or account of the City or shall be otherwise used by the City for any lawful purpose as the City may direct. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Project Lease and the First through Sixth Amendments to Master Project Lease – Reserve Account" herein.

Certain Covenants of the City. Under the Master Project Lease, the City agrees that it will, at its own cost and expense, maintain, preserve and keep the Master Leased Property in good repair and working order, pay all taxes or other charges which may be levied upon the Master Leased Property, maintain insurance on the Master Leased Property (either through commercial carriers or, to the extent permitted by the Master Project Lease, self insurance), and cause the net proceeds of any insurance payment or any condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of such damaged, destroyed or condemned portion of the Master Leased Property (or prepay the Master Project Lease subject to certain limitations in the Master Project Lease).

See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Project Lease and the First through Sixth Amendments to Master Project Lease – Insurance" herein.

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

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

BOND INSURANCE

Payment Pursuant to Insurance Policy

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

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

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

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

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

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

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

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

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$9,417,000,000** (unaudited) and statutory capital of **$5,879,000,000** (unaudited) as of **March 31, 2006**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Insured Series A Bonds. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Insurance Policy due to nonappropriation of funds by the City.

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

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006.

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

RISK FACTORS

General

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

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

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

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

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

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

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

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

In response to these flood events, the U.S. Army Corps of Engineers ("COE") conducted hydrology studies on the lower American River in 1989, in 1997, and again in 1999. At that point, the COE indicated large portions of the Sacramento area, primarily south of the American River, were only protected against a 90-year flood event. However, in late 2004, the COE and the Sacramento Area Flood

Control Agency ("SAFCA") completed levee improvements on the American River that improved the level of flood protection from that river to the 100 year criteria considered by the Federal Emergency Management Agency ("FEMA") as the minimum threshold for mandatory flood insurance.

Portions of the Sacramento River levee in the Pocket Area of the City have not been certified to provide 100-year protection by the COE. Additional work will be required to bring these levees up to the 100-year certification level. SAFCA, the State and the COE intend to complete the necessary work to repair the Sacramento River levee in the Pocket Area for certification of the levee to provide 100-year protection by the end of calendar year 2006.

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

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

The COE released a study in 1998, "South Sacramento County Streams," which identified an underlying 100-year floodplain due to Morrison Creek and its tributaries in the southern portion of the City. The Morrison Creek floodplain is within the area of the American River flood plain and the Sacramento River floodplain. Congress has authorized funding for a COE project, "South Sacramento Stream Group Project." When completed, the project will provide 100-year protection from Morrison Creek and its tributaries to the Pocket area of the City and a large portion of the Meadowview area of the City. Phase 1A improvements to Morrison Creek west of the Union Pacific railroad tracks were completed at the end of 2005. Phase 1B improvements are anticipated to be completed by the end of 2006.

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

There can be no assurance that future flooding in and around the City caused by river overflow or heavy rainfall will not result in damage to, or destruction or condemnation of, property in the City (including the Master Leased Property). See " – Uninsured or Underinsured Loss of Use or Occupancy" below for a discussion of certain limitations on the City's flood insurance.

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

Seismic Factors. The City's use and occupancy of any of the Master Leased Property may be interfered with as a result of a major earthquake in the geographical area of the City. The area of the City, like those in much of California, may be subject to unpredictable seismic activity. Although the City believes that no active or inactive fault lines pass through or near the City, if there were to be an occurrence of severe seismic activity in the City, there could be damage to the Master Leased Property of a magnitude sufficient to cause interference with the City's use and occupancy of the Master Leased Property. The City does not currently maintain earthquake insurance. See " – Uninsured or Underinsured Loss of Use or Occupancy" below.

State of California Reserved Rights in Meadowview Corporation Yard Property. A portion of the Master Leased Property (the "Meadowview Property"), representing less than 3% of the total asset value of the Master Leased Property, is subject to certain reserved rights (the "Reserved Rights") of the State of California to prospect for, mine and remove all mineral deposits. In the event the State or its transferees, assignees, agents or contractors conduct mining operations, the State would be required to pay the cost of reclamation and restoration of the Meadowview Property to the condition it was in prior to the mining activity. However, nothing precludes destruction, during any period mining operations are conducted, of any structures placed on the property by the City, and any such mining and accompanying destruction of structures could result in loss of beneficial use by the City of all or a portion of the Meadowview Property. The City and the Authority have covenanted, in the Fourth Amendment to Master Project Lease, to use their best efforts (to the extent then permitted by law) to substitute other real property and improvements of the City in accordance with the terms of the Master Project Lease in the event that the City's beneficial use of the Meadowview Property is interfered with in connection with the exercise by the State of any of the Reserved Rights.

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

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

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

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Following is a description of certain constitutional limitations on taxes and appropriations applicable to the City. For a description of other factors relating to the revenues of the City, see APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO."

Article XIIIA of the State Constitution

Section 1(a) of Article XIIIA of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIIIA), to be collected by counties and apportioned according to law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to June 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIIIA. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIIIA. This amendment could serve to reduce the property tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

In the November 1990 election, the voters approved the amendment of Article XIIIA to permit the State Legislature to exclude from the definition of "newly constructed" the construction or installation of seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIIIA has also been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – Property Taxation Within the City" herein.

Article XIIIB of the State Constitution

Article XIIIB of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the appropriations limit for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 fiscal year. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

Appropriations of an entity of local government subject to Article XIIIB generally include authorizations to expend during a fiscal year the "proceeds of taxes" levied by or for the entity, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, certain State subventions received by the local governmental entity and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost of providing the service or regulation) and (2) the investment of tax revenues. Article XIIIB provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Article XIIIB does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose, or appropriations for certain other limited purposes. Furthermore, in 1990, Article XIIIB was amended to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds $100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long-term general fund lease obligations (including the Master Project Lease) are generally excluded from the City's appropriations limit.

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

Articles XIIIC and XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. The voter approval requirements of Article XIIIC reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

The City currently imposes the following general taxes: business operations tax, utility users tax, real property transfer tax and transient occupancy tax. Since all of these taxes were imposed prior to January 1, 1995 and have not been extended or increased since such date, such taxes should be exempt from the requirements of Article XIIIC. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIIIC.

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

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

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

Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's operations could be adversely affected.

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara City Local* Transportation *Authority v. Guardino,* upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In response to the *Santa Clara* decision, the California Legislature adopted Assembly Bill 1362, which provided that the *Santa Clara* decision should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. Assembly Bill 1362 was vetoed by the Governor, hence the application of the *Santa Clara* decision on a retroactive basis remains unclear.

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

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

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

Proposition 1A

As part of Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales and vehicle license fee revenues as of November 3, 2004, and by providing that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – CITY FINANCES – Impact of State Budget on City" for additional information regarding Proposition 1A and the circumstances in which allocations may be changed.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues or the City's ability to expend revenues.

THE AUTHORITY

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

THE CITY

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

CERTAIN LEGAL MATTERS

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

CONTINUING DISCLOSURE

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

LITIGATION

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

TAX MATTERS

Series A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series A Bonds is not a specific preference item for the purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

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

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

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

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

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

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City and the Authority or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and the Authority have covenanted, however, to comply with the requirements of the Code.

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

Series B Bonds

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("Standard & Poor's") have assigned the Bonds ratings of "Aa3" and "AA-," respectively. In addition, Moody's and Standard & Poor's are expected to assign ratings of "Aaa" and "AAA," respectively, to the Insured Series A Bonds based on the understanding that the Insurance Policy will be issued by the Bond Insurer simultaneously with the delivery of the Insured Series A Bonds. Each rating reflects only the views of such organization and any explanation of the significance of such rating may be obtained only from Moody's or Standard & Poor's. There is no assurance that any rating will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds. The Authority and the City undertake no responsibility to oppose any such revision or withdrawal.

AUDITED FINANCIAL STATEMENTS

Audited financial statements of the City for the fiscal year ended June 30, 2005 are attached hereto as Exhibit B. The City's financial statements were audited by the independent accounting firm of Macias, Gini & Company, LLP (the "Auditors"). The Auditors have not reviewed or audited this Official Statement and the City has not sought the consent of the Auditors to the inclusion of the Auditors' report in this Official Statement.

UNDERWRITING

The Bonds are being purchased by the Underwriters (for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative). The Underwriters have agreed to purchase the Series A Bonds for $97,541,469.85 (which represents the $95,900,000.00 aggregate principal amount of the Series A Bonds less an underwriters' discount of $639,709.25 and plus a net original issue premium of $2,281,179.10). The Underwriters have agreed to purchase the Series B Bonds for $54,854,479.90 (which represents the $55,235,000.00 aggregate principal amount of the Series B Bonds less an underwriters' discount of $380,520.10. The Contract of Purchase pursuant to which the Underwriters are purchasing the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in such contract of purchase.

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

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EXECUTION AND DELIVERY

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

SACRAMENTO CITY FINANCING AUTHORITY

By: /s/ Thomas P. Friery
Thomas P. Friery
Treasurer

CITY OF SACRAMENTO

By: /s/ Thomas P. Friery
Thomas P. Friery
City Treasurer

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Thomas P. Friery
City Treasurer

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO

Introduction

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

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

Government

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

The City provides a number of municipal services, including administration, police, fire, library, recreation, parking public works, and utilities such as water production and distribution, refuse collection, storm drainage and maintenance.

Key Personnel

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

Cassandra Jennings was appointed Assistant City Manager in May 2005. She currently provides management oversight for Neighborhood Services, Code Enforcement, Economic Development and Convention Culture and Leisure, and is the liaison with the Joint Power Authorities (the Sacramento Housing and Redevelopment Agency, Library and the Sacramento Employment and Training Agency). Prior to joining the City team, Mrs. Jennings was the Deputy Executive Director of the Sacramento Housing and Redevelopment Agency where she held various leadership positions over the past 18 years. Mrs. Jennings is very active in the community including serving on numerous boards such as American Leadership Forum, Florin Road Foundation, Oak Park Outreach, Valley Vision, The Sacramento Chapter of the Links Incorporated and American Lung Association Emigrant Trails. Mrs. Jennings received a Bachelor of Arts in Urban Studies from the University of Maryland, College Park and a Masters in Public Administration from the University of San Francisco.

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

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

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

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

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

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

Employee Relations

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

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

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

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

Employee's Retirement Plan

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

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

All full time, non safety employees hired before January 29, 1977, excluding Sacramento Housing and Redevelopment Agency, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing the City of Sacramento, 915 I Street, 4th Floor, Sacramento, CA 95814.

The tables below summarize key trends since 2000 in the City's retirement plans for which contributions are made from the General Fund (contributions to the Sacramento Housing and Redevelopment Agency retirement plan are not made from the General Fund). Additional information regarding the City's employee retirement plans, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 8 to the City's audited financial statements set forth in Appendix B hereto.

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

PERS - Miscellaneous Employees

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

Source: PERS actuarial valuations through June 30, 2004.

PERS - Safety Employees

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

Source: PERS actuarial valuations through June 30, 2004.

SCERS

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) - Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2000	$355	$473	$(118)	113%	$17	(694)%
2001	360	435	(75)	121	15	(500)
2002	362	381	(19)	105	12	(158)
2003	363	386	(23)	106	12	(192)
2004	363	394	(31)	108	13	(238)
2005	370	374	(3)	101	12	(25)

Source: PERS actuarial valuations through June 30, 2005.

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

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

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

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Other Post Employment Benefits ("OPEB") provided by the City, separately from a pension plan, include health and dental care insurance contributions and an implied rate subsidy for retirees. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The City's retiree post employment health and dental benefits fall under Statement No. 45. The effective date of the Statement No. 45 reporting requirements for the City is Fiscal Year 2007-08 (the first Fiscal Year period beginning after December 15, 2006). The City contracted with Bartel and Associates to provide an actuarial study to calculate the accumulated post retirement benefit obligation with respect to post retirement health and welfare benefits offered to its employees. The preliminary results of the study found the City's actuarial accrued liability to be in the range of $200 to $400 million. The range of the liability is based upon varying assumptions to be made regarding the level of future benefits, advance funding, and amortization periods. The requirements that Statement No. 45 imposes on the City only affect the City's financial statements and would not, as such, impose any requirements regarding the actual funding of any OPEB plans.

CITY FINANCES

City Budget

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

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

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

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

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

Following the amendment of the budgets to incorporate changes engendered during the public forum process, the budget is formally adopted by the vote of City Council on or before June 30 of each year. The budget for Fiscal Year 2005-06 was adopted on June 21, 2005. The proposed budget for Fiscal Year 2006-07 is available on the City's website, www.cityofsacramento.org. Information on the website is not incorporated herein by reference. The City Council is expected to adopt the budget for Fiscal Year 2006-07 on June 20, 2006.

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

GENERAL FUND BUDGETS
(in thousands)

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

Source: City of Sacramento.

General Fund Financial Summary

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

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

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

Source: City of Sacramento.

Budget Policies

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

Financial Schedules

A copy of the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2005 is attached as APPENDIX B hereto. Prospective investors are encouraged to read the City's Comprehensive Annual Financial Report, including the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements, because it includes important information concerning the City and its financial condition. Audited financial statements for prior years are available upon request from the Finance Department of the City. Macias, Gini & Company, LLP, Sacramento, California (the "Auditors"), performed the financial statement audit for the City for the Fiscal Year ended June 30, 2005. The Auditors have not reviewed or audited this Official Statement and the City has not sought the consent of the Auditors for the inclusion of the Auditors' report in this Official Statement.

City Independent Audit Policy

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

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

Interfund Borrowing and Cash Flows

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

City Investments

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

The primary investment strategy for Pool A is to provide adequate liquidity. This is achieved by covering the expected cash disbursements with revenues and maturities for the next rolling six-month period. After satisfying liquidity, any idle cash is used to prudently maximize yield. Longer-term strategies are developed and followed after considering long-term cash flow needs, current projected economic conditions and the prudent diversification of maturities.

As of April 30, 2006, Pool A was invested in securities with an original cost of $670,307,113 with an average life of 1.1 years and yield of 4.03%. As of April 30, 2006, the market value of the investments in Pool A was $669,012,308.

Property Taxation Within the City

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

Prior to Fiscal Year 1981-82, property was assessed at 25% of full cash value, which under Article XIIIA of the California Constitution (Proposition 13) resulted in a maximum tax rate of $4.00 per $100 of taxable value, except for taxes to meet debt service on indebtedness approved by the electorate prior to July 1, 1978. Beginning with Fiscal Year 1981-82, property has been assessed at 100% of cash value and the maximum property tax rate is $1.00 per $100 of taxable value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIIIA of the State Constitution" for discussion of the Constitutional limitations on the City's ability to issue general obligation debt payable from an increase in the tax rate.

The taxable value reflects homeowner's and business inventory exemptions. Tax revenues lost as a result of the homeowner's exemption are reimbursed by the State based on the total taxes which would be due on the taxable value of the property qualifying for the exemption, without allowance for delinquencies. The homeowner's exemption is $7,000 of the taxable value ($70 in taxes) of an owner-occupied dwelling, provided the owner files for the exemption.

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

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

GROSS ASSESSED VALUES
FOR ALL TAXABLE PROPERTY
(In Thousands)

	Gross Assessed Value[1]			
Fiscal Year	Secured Roll	Unsecured Roll	Public Utility	Total
1996-97	$15,812,272	$1,193,868	$50,688	$17,056,828
1997-98	15,939,774	1,227,359	53,559	17,220,692
1998-99	16,539,861	1,247,496	57,831	17,845,188
1999-00	17,289,515	1,246,831	58,000	18,594,346
2000-01	18,369,903	1,231,639	54,668	19,656,210
2001-02	19,718,191	1,717,368	57,292	21,492,851
2002-03	21,855,519	1,157,123	66,428	23,079,070
2003-04	23,859,347	1,168,917	60,909	25,089,173
2004-05	27,010,976	1,343,104	57,800	28,411,880
2005-06	31,112,448	1,574,566	56,950	32,743,964

(1) Stated at full value; exclude property subject to redevelopment tax increments.
Source: County of Sacramento, Office of Auditor/Controller.

The City receives only a portion of the property taxes collected within the City, sharing the revenue with school districts, redevelopment areas, special districts, and Sacramento County. The sharing of property tax revenue is based on formulae set in state law and regulation. Annual changes in tax revenue are, however, proportional to changes in the tax roll values within the City. The property taxes are billed, collected and allocated by the County.

The following table provides a list of the City's largest local secured taxpayers for the Fiscal Year ended June 30, 2005.

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

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

(1) Fiscal Year ended June 30, 2005 Total Assessed Valuation: $25,736,152.
Source: County of Sacramento.

Other Taxes

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

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

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

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

Utility Users Tax. Measure C was approved by the voters on November 8, 1988. The Measure was presented in the form of an advisory vote asking the question: "Should the utility users tax rate be maintained at 7.5% in order to provide additional General Fund revenues to augment City services such as public safety?"

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

There are some longer term threats to the utility user tax revenue stream. Changes to the taxation and franchise fee structure for telecommunications and cable television are being proposed at both the federal and state levels. Many of the proposed changes, if implemented, could reduce the utility user tax imposed on telephone and cable television use. At this point the impacts cannot be quantified.

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

Impact of State Budget on City

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

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

The City's receipt of a portion of the VLF is an important revenue source. Prior to Fiscal Year 2004-05, existing law provided generally that annual vehicle license fees were to be calculated at 2% of the market value of the applicable vehicle, and that the net fee proceeds were to be distributed to cities and counties, subject to an offset of 67.5% of 2%. Existing law further provided that the amount of the offset was to be back-filled to cities and counties by the State from moneys in the State's General Fund. Senate Bill 1096 (Chapter 211, Statutes of 2004) ("SB 1096") repealed the offset, and instead provided that annual vehicle license fees are to be calculated at 0.65% of the market value of the applicable vehicle. SB 1096 also repealed the obligation for the State to "back-fill" the offset from the State's General Fund, and instead compensates cities and counties for the reduced vehicle license fee revenues by providing for a "vehicle license fee adjustment" commencing in Fiscal Year 2004-05 and in each Fiscal Year thereafter. The replacement revenue for direct State backfill payments is an increased allocation of local property taxes. In Fiscal Year 2004-05 the property tax backfill is based on an estimate from the State Controller. In Fiscal Year 2005-06 and following years, the backfill will be an increased share of base and growth property taxes. In addition, the City is to receive a settlement payment based on the difference from what would have been the backfill based on actual VLF collections and the State Controller's estimate. Proposition 1A (as hereinafter defined) amended the State Constitution to codify the obligation of the State to provide such vehicle license fee adjustment.

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

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

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

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

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

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2005-06 State budget and the proposed Fiscal Year 2006-07 State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. Information on these websites is not incorporated herein by reference.

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

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

No Default

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

Debt Statement

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of May 1, 2006. The Debt Report is included for general information purposes only. The City makes no representations as to its completeness or accuracy.

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

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DIRECT AND OVERLAPPING BONDED DEBT

CITY OF SACRAMENTO

(As of May 1, 2006)

2005-06 Assessed Valuation:	$32,543,964,039
Redevelopment Incremental Valuation:	3,279,155,237
Adjusted Assessed Valuation:	$29,264,808,802

OVERLAPPING TAX AND ASSESSMENT DEBT:	Percent Applicable	Debt May 1, 2006	
Sacramento County Regional Sanitation District	33.089%	$ 1,062,157	
Los Rios Community College District	24.371	21,942,430	
Natomas Unified School District	86.380	80,264,026	
Sacramento Unified School District	79.873	270,046,619	
San Juan Unified School District	2.893	6,959,219	
Grant Joint Union High School District	48.665	10,421,958	
North Sacramento School District	100.000	19,580,000	
Rio Linda Union School District	17.119	4,961,906	
Robla School District	72:017	8,626,144	
City of Sacramento Community Facilities Districts	100.000	152,645,000	
Elk Grove Unified School District Community Facilities District No. 1	12.061	17,773,265	
Sacramento City Unified School District Community Facilities District No. 1	100.000	4,430,000	
City 1915 Act Bonds	100.000	35,088,800	
Sacramento Area Flood Control Agency Capital Districts Assessment District	94.210	31,900,050	
Sacramento Area Flood Control Agency Operation and Maintenance Assessment District	39.402	1,800,671	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$667,502,245	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Sacramento County General Fund Obligations	28.839%	$ 99,837,135	
Sacramento County Pension Obligations	28.839	275,332,270	
Sacramento County Board of Education Certificates of Participation	28.839	3,688,508	
Natomas Unified School District Certificates of Participation	86.380	72,619,666	
Sacramento Unified School District Certificates of Participation	79.873	74,002,335	
Sacramento Unified School District Pension Obligations	79.873	4,085,504	
San Juan Unified School District Certificates of Participation	2.893	332,550	
Grant Joint Union High School District Certificates of Participation	48.672	31,055,170	
City of Sacramento General Fund Obligations	**100.000**	**852,875,000**	(1)
Arcade Creek and Fulton-El Camino Recreation and Park District Certificates of Participation	0.667-19.950	283,947	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$1,414,112,085	
Less: **City of Sacramento self-supporting bonds**		**132,918,230**	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$1,281,193,855	
GROSS COMBINED TOTAL DEBT		$2,081,904,846	(2)
NET COMBINED TOTAL DEBT		$1,948,696,100	

(1) Excludes lease revenue bonds 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 2005-06 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 2.05%

Ratios to Adjusted Assessed Valuation:
Gross Combined Direct Debt ($852,875,000)............................ 2.91%
Net Combined Direct Debt ($719,956,770)................................ 2.46%
Gross Combined Total Debt 7.11%
Net Combined Total Debt 6.66%

STATE SCHOOL BUILDING AID REPAYABLE AS OF JUNE 30, 2005: $2,045

General Fund Obligation Debt Service

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

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GENERAL FUND OBLIGATION DEBT SERVICE
AS OF MARCH 31, 2006

Fiscal Year	1991 (1) Marks Roos Rev.	1993 (2) Lease Rev. Bonds	1997 (3) Lease Rev. Bonds	1999 CFD 2 Lease	1999 (4) Cap. Impr Rev.	2001 (5) Cap. Impr Rev.	2002 (6) Cap. Impr. Rev.	2002 (7) COP H St. Theatre	2002 (8) Refunding Rev. Bonds	Capital, Small (9) Equip., Lses, Adv, &Nts	2003 (10) Cap. Impr Rev.	2005 (11) Refunding Rev. Bonds	Total Debt Service Obligations	% of FY 05-06 (12) General Fund Revenues $352,000,000	Total Supported By Other Sources	Adjusted Total Supported By General Fund	Adjusted Percent of FY05-06 General Fund Revenue $352,000,000
2006 (13)	$1,435,695	$15,580,171	$5,518,050	$225,938	$1,973,846	$9,734,470	$11,029,264	$1,059,243	$5,708,744	$3,654,409	$4,074,131	$7,458,220	$67,452,181	19.16%	$43,575,633	$23,876,548	6.78%
2007	1,431,398	15,563,126	5,599,421	227,031	1,035,098	9,390,670	11,593,989	1,057,153	5,720,156	1,511,453	4,075,731	8,416,800	65,622,025	18.64	41,898,065	23,723,960	6.74
2008		15,556,784	5,668,088	232,656	1,024,640	9,402,745	11,160,101	1,054,100	5,692,256	1,403,977	4,069,556	8,416,800	63,681,704	18.09	41,678,447	22,003,257	6.25
2009		15,546,066	5,768,069	232,813	1,608,149	10,113,683	10,507,451	1,054,640	5,690,578	1,381,177	4,068,119	8,779,400	64,750,144	18.39	41,841,678	22,908,466	6.51
2010		15,536,027	5,934,404	232,656	1,961,008	10,104,164	10,485,626	1,053,789	5,665,563	628,551	4,067,309	9,166,400	64,835,496	18.42	44,223,108	20,612,388	5.86
2011		15,527,202	5,843,233	237,031	2,057,373	10,095,676	10,481,083	1,048,711	5,661,888	266,613	4,061,009	9,982,900	65,262,717	18.54	42,933,278	22,329,439	6.34
2012		15,509,721	5,999,695	240,781	2,059,303	10,085,570	10,468,801	1,052,226	5,651,375	102,599	4,059,253	9,980,800	65,210,124	18.53	44,517,845	20,692,279	5.88
2013		15,492,536	6,096,018	243,906	262,338	5,678,685	10,479,501	1,052,531	5,642,625	102,599	4,057,920	16,173,100	65,281,759	18.55	42,138,941	23,142,818	6.57
2014		15,479,208	6,175,822	246,406	264,499	5,581,500	10,464,454	1,051,712		102,599	4,053,148	16,248,725	59,668,073	16.95	43,792,405	15,875,668	4.51
2015		15,468,171	6,265,013	243,438	261,110	5,581,500	5,736,483	1,049,678		102,599	5,128,205	20,526,225	60,362,420	17.15	43,538,908	16,823,513	4.78
2016		15,437,935	6,412,263	245,000	261,860	5,581,500	4,822,908	1,051,448		102,599	5,283,043	21,427,600	60,626,154	17.22	46,059,862	14,566,293	4.14
2017		15,430,735	6,361,380	245,938	261,710	5,581,500	4,809,120	1,051,938		102,599	5,331,490	21,404,850	60,581,259	17.21	44,369,738	16,211,521	4.61
2018		15,408,975	6,518,699	251,094	260,980	5,581,500	5,308,151	1,051,108		102,599	5,384,795	20,886,350	60,754,250	17.26	45,679,124	15,075,126	4.28
2019		15,391,035	6,609,088	255,313	259,670	5,581,500	3,258,518	1,048,918			5,534,870	17,481,100	55,420,010	15.74	39,131,651	16,288,359	4.63
2020		15,369,890	6,688,908	253,750	262,635	5,581,500	3,292,875	1,050,215			4,363,863	17,425,225	54,288,860	15.42	40,760,963	13,527,898	3.84
2021		15,348,515	6,840,092	256,406	259,931	5,581,500	2,698,768	1,044,958			3,941,005	16,470,100	52,441,275	14.90	38,455,831	13,985,444	3.97
2022			6,823,396	262,969	261,563	5,581,500	2,790,500	1,047,831			3,955,885	16,337,475	37,061,119	10.53	28,615,398	8,445,721	2.40
2023			6,966,010	263,438	262,331	13,240,125	6,255,250	1,043,975			3,978,691	5,685,600	37,695,420	10.71	25,596,385	12,099,035	3.44
2024			7,053,333	262.969		13,232,500	5,782,875	1,043,000			3,989,568	5,537,225	36,901,469	10.48	14,310,056	22,591,413	6.42
2025			7,144,171			13,224,625	5,778,125	1,044,625			3,900,519	5,538,688	36,630,752	10.41	25,366,635	11,264,117	3.20
2026			7,236,308			13,210,625	5,779,000	1,044,500			3,924,875	5,527,644	36,722,951	10.43	27,541,370	9,181,582	2.61
2027			7,336,880			13,199,500	5,775,000	1,042,625			3,935,625	5,533,631	36,823,261	10.46	25,530,471	11,292,790	3.21
2028			7,401,354			13,190,000	5,765,875	1,039,000			3,958,875	5,537,250	36,892,354	10.48	27,711,960	9,180,394	2.61
2029						13,176,000	5,751,375	1,038,500			4,091,125	5,517,000	29,574,000	8.40	18,154,830	11,419,170	3.24
2030						13,161,375	5,755,625	1,036,000			4,107,000	5,514,500	29,574,500	8.40	20,279,660	9,294,840	2.64
2031						13,149,750	5,747,875	1,036,375			4,128,750		24,062,750	6.84	13,358,875	10,703,875	3.04
2032						13,134,750	5,737,875	1,034,500			4,155,625		24,062,750	6.84	15,543,255	8,519,495	2.42
2033						13,120,000	5,734,875	1,035,250			4,182,000		24,072,125	6.84	13,325,000	10,747,125	3.05
2034											4,202,500		4,202,500	1.19	1,737,795	2,464,705	0.70
Offsetting Sources=>	100.0%		100.0%	0.0%	100.0%	100.0%	30.0%	100.0%	40.0%	Varies	39.4%	86.5%					

(1) 1991 Marks Roos Revenue Bonds support: (SHRA, CFD 97-01B avg. annl. 42.5%, DS)
(2) 1993A Lease Revenue Bonds support: 80.5% Community Center Fund, 8.0% Golf Fund and 1993B Lease Revenue Bonds support: 30.2% Parking Fund, 13.0% Storm Drainage Fund, 9.0% Community Center Fund.
(3) 1997 Lease Revenue Bonds support: ARCO Arena Sublease. Assumes the fixed rate established pursuant to the Swap Agreement for the 1997 Bonds for the entire life of the 1997 Bonds.
(4) 1999 Capital Improv Rev. Bonds support: 38.8% Solid Waste, 61.2% SHRA (39.2% Loan and 22.0% Master Lease)
(5) 2001 Capital Improv Rev. Bonds support: 98.4% Water, 1.6% Golf
(6) 2002 Capital Improv Rev. Bonds support: 70.6% General Fund, 29.4% SHRA
(7) Obligation is payable from H Street Theatre Revenues.
(8) Refunded the 1991 COP(Public Facilities) and 1991 COP (Light Rail): 60% General Fund, 40% Community Center Fund
(9) Capital, Small Leases, Advances and Notes support: various levels from Other Sources
(10) 2003 Capital Improv Rev. Bonds support: 60.65% - General Fund, 39.35% - Other Sources
(11) Refunded the 1999 CIRB (23.94%), 2000 CIRB (21.75%), 2001 CIRB (35.09%), 2002 CIRB (18.94%)
(12) Data based on Fiscal Year 2005-06 Approved Budget
(13) Includes debt service for full fiscal year.
Source: City of Sacramento

CITY ECONOMICS

Population

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

CITY OF SACRAMENTO
2002-2006 Population Estimates

Calendar Year	City of Sacramento	County of Sacramento	State of California
2002	426,660	1,287,246	35,088,671
2003	435,506	1,317,806	35,691,472
2004	444,005	1,344,867	36,245,016
2005	452,050	1,366,937	36,728,196
2006	457,514	1,385,607	37,172,015

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

Industry and Employment

As the seat of State government, the City has traditionally had a large public sector workforce. In recent years, the employment base in Sacramento and the surrounding area has diversified as the relatively low cost of living and supply of skilled labor have drawn a number of technology, financial services and healthcare employers.

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

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

	2001	2002	2003	2004	2005
Civilian Labor Force	935,500	968,100	989,800	1,004,200	1,020,000
Employment	893,900	915,100	933,500	950,100	971,900
Unemployment	41,600	53,000	56,300	54,100	48,100
Unemployment Rate	4.4%	5.5%	5.7%	5.4%	4.7%
Industry Employment (Selected Industries)					
Government	218,100	226,800	226,200	221,600	224,100
Trade, Transportation and Utilities	140,600	140,600	143,100	146,100	149,000
Publishing, Information and Telecommunications	37,700	39,400	38,200	36,700	34,900
Business and Professional Services	99,300	96,100	95,800	98,400	102,600
Educational and Health Services	75,900	78,000	81,000	84,600	87,500
Leisure and Hospitality	72,200	75,200	77,300	79,900	82,200
Other Services	27,700	28,200	28,000	28,500	28,800
Finance, Insurance, Real Estate	52,400	55,200	59,400	60,500	63,400
Manufacturing	49,800	47,000	46,300	47,300	49,000
Construction	59,500	61,300	66,500	70,800	73,300
Natural Resources and Mining	900	800	700	700	700
Total Nonagricultural Industries	818,900	832,200	846,000	859,100	880,300
Total Farm	8,100	7,900	7,500	7,400	7,100
Total All Industries	827,000	840,100	853,500	866,400	887,400

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

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

SACRAMENTO COUNTY
MAJOR EMPLOYERS
AS OF JANUARY 1, 2006

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

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

Median Effective Buying Income

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

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

EFFECTIVE BUYING INCOME
2002 through 2005

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

Source: Claritas, Inc.

Building Permit Activity

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

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

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	$399,498.1	$479,627.8	$483,080.6	$429,519.8	$224,904.5
New Multi-family	61,143.3	96,733.3	198,917.8	112,839.4	101,740.1
Res. Alterations/Additions	67,105.1	75,538.1	82,911.9	120,170.6	127,772.3
Total Residential	$527,746.5	$651,899.2	$764,910.3	$662,529.8	$454,366.8
New Commercial	66,545.8	97,108.8	99,722.5	92,793.6	114,617.8
New Industrial	32,124.7	30,088.1	18,772.1	35,754.2	38,965.5
New Other	18,461.3	24,527.3	45,164.0	23,234.6	47,299.0
Com. Alterations/Additions	71,294.9	80,310.5	93,859.8	121,622.5	120,049.8
Total Nonresidential	188,426.7	232,034.8	257,518.5	273,404.9	320,932.0
New Dwelling Units					
Single Family	2,745	3,227	3,605	3,108	1,782
Multiple Family	881	1,328	2,368	1,214	1,176
TOTAL	3,626	4,555	5,973	4,322	2,958

Note: Totals may not foot due to rounding.

Source: Construction Industry Research Board Building Permit Survey.

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Commercial Activity

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

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

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

Source: State Board of Equalization.

Education

Public school education in the City is available through eight elementary, two high school and six unified school districts. There are approximately 84 private schools in Sacramento County and 70 industrial, technical trade schools.

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

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

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

Transportation

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

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

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

Sacramento International Airport is about 12 miles northwest of downtown Sacramento. The airport is served by 13 major carriers and one commuter carrier. Executive Airport, located in the City, is a full-service, 540-acre facility serving general aviation; providing a wide array of facilities and services. Finally, Mather Airport, also located in the City, currently offers full-service, fixed-base operations, 24-hour air traffic control, serves general aviation and has one of the longest runways in California.

APPENDIX B

AUDITED FINANCIAL STATEMENTS
OF THE CITY

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MACIAS GINI & COMPANY LLP

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Sacramento, California 95816

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To the Honorable Mayor and
Members of the City Council
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sacramento, California (the City), as of and for the fiscal year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sacramento, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, effective July 1, 2004, the City implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3.*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Schedule of Funding Progress on page 95 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sacramento's basic financial statements. The introductory section, combining fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP
Certified Public Accountants

Sacramento, California
November 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is management's discussion and analysis of the financial performance of the City of Sacramento for the fiscal year ended June 30, 2005. Please read this in conjunction with the transmittal letter, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- The City's total net assets, excluding discretely presented component units, increased over the course of the fiscal year by $108 million to $ 2.5 billion. The net assets of governmental activities increased by $57 million, or 5 percent, and the net assets of business-type activities increased by $51 million, or 6 percent.
- The General Fund, using the current financial resources basis, reported revenues in excess of expenditures and other financing sources and uses of $15.5 million. The surplus was the result of increased revenues and City Council's continued commitment to a sustainable budget concept.
- The increase in net assets of the City's business-type activities was largely due to capital contributions of infrastructure in the Water and Sewer funds and capital contributions to the SHRA Enterprise Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts — management's discussion and analysis (this portion), the basic financial statements, required supplementary information, and optional combining statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds. The basic financial statements include two kinds of statements that present different views of the City.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- Fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
    - ◊ Governmental funds statements tell how general government services such as police, fire and transportation were financed in the short-term as well as what remains for future spending.
    - ◊ Proprietary fund statements offer short-term and long-term financial information about the activities the City operates like businesses, such as utility services.
    - ◊ Fiduciary fund statements provide information about the financial relationships—like the retirement plan for the City's employees— in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by the Pension Plans' Schedule of Funding Progress, which is required supplementary information. In addition to these required elements, we have included combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds, each of which is presented in a column in the basic financial statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All current year revenues and expenses are reported in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed during the fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating.

The government-wide financial statements of the City are divided as follows:

- *Governmental activities* — Most of the City's basic services are included here, such as the police, fire, transportation, general services, parks and recreation, housing and redevelopment, and general government. Taxes and state and federal grants finance most of these activities.
- *Business-type activities* — certain services provided by the City are funded by customer fees. Among these are the City's utility services, community center, and SHRA assisted housing.
- *Component units* — The City includes two other entities in its basic financial statements which, although legally separate, are important because the City is financially accountable for them. These component units are the Sacramento Hotel Corporation and the Sacramento Regional Arts Facilities Financing Authority.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the City's largest funds, not the City as a whole.

The City has three types of funds:

- *Governmental funds* — Most of the City's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining year-end balances available for spending. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds and governmental activities follow the governmental funds statements.

- *Proprietary funds* — Services for which customer fees are intended to finance the costs of operations are generally reported in proprietary funds. Proprietary funds financial statements, like the government-wide statements, provide both long-term and short-term financial information.
  - ◊ Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.
  - ◊ Internal service funds report activities that provide services for the City's other programs and activities, such as the City's Fleet Fund and Risk Management Fund.

- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for its employees' pension plan. It is also responsible for other assets, reported in an investment trust fund, which because of trust agreements, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

City of Sacramento
Summary of Net Assets
As of June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Current and other assets	$ 1,034	$ 1,011	$ 193	$ 193	$1,227	$1,204	1.91%
Capital assets	1,410	1,347	1,290	1,214	2,700	2,561	5.43
Total assets	2,444	2,358	1,483	1,407	3,927	3,765	4.30
Long-term liabilities	721	727	496	472	1,217	1,199	1.50
Other liabilities	204	169	51	50	255	219	16.44
Total liabilities	925	896	547	522	1,472	1,418	3.81
Net assets:							
Invested in capital assets, net of related debt	1,224	1,134	839	783	2,063	1,917	7.61
Restricted	367	425	3	3	370	428	(13.55)
Unrestricted	(72)	(97)	94	99	22	2	1000.00
Total net assets	$1,519	$1,462	$ 936	$ 885	$2,455	$2,347	4.60%

Net assets represent the difference between the City's resources and its obligations. Over time, net assets may serve as an indication of a government's financial position. Combined net assets of the primary government increased by 4.6 percent this year; $2.347 billion at June 30, 2004 to $2.455 billion at June 30, 2005. At June 30, 2005, the largest portion of the City's total net assets, approximately 84 percent, reflects the investment in capital assets, less related debt outstanding used to acquire the capital assets. These capital assets are used by the City to provide services to the citizens. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A. Restricted net assets represent amounts that must be used in accordance with external restrictions. The deficit balance of unrestricted governmental activities net assets is primarily due to the issuance of redevelopment debt by SHRA. Redevelopment debt is used for redevelopment and economic development projects in the community but does not result in assets that are capitalized in SHRA's financial statements. Although the net assets of our business-type activities increased to $936 million, the City generally can only use these net assets to finance the continuing operations of the business-type activities.

City of Sacramento
Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(in thousands)

	Governmental Activities 2005	Governmental Activities 2004	Business-type Activities 2005	Business-type Activities 2004	Total Primary Government 2005	Total Primary Government 2004	Total Percent Change
Revenues							
Program revenues:							
Charges for services	$ 99,999	$ 94,942	$ 188,370	$ 175,160	$ 288,369	$ 268,893	6.76%
Operating grants and contributions	77,052	59,821	112,326	99,582	189,378	160,547	18.80
Capital grants and contributions	147,034	204,955	35,318	18,592	182,352	223,612	(18.43)
General revenues:							
Property taxes	70,456	63,877	-	-	70,456	63,877	10.30
Redevelopment tax increment	40,676	35,314	-	-	40,676	35,314	15.18
Utility user taxes	53,893	52,538	-	-	53,893	52,538	2.58
Other taxes	30,668	25,984	14,398	13,436	45,066	39,420	14.32
Sales taxes shared state revenue	55,342	61,822	-	-	55,342	61,822	(10.48)
In-lieu sales tax	15,284	-	-	-	15,284	-	n/a
Motor vehicle license fee	26,393	27,179	-	-	26,393	27,179	(2.89)
Investment earnings	24,751	18,498	4,342	2,229	29,092	20,727	40.36
Other	13,704	11,227	7,906	676	21,610	11,903	81.55
Total revenues	655,252	656,157	362,660	309,675	1, 017,912	965,832	5.39
Expenses							
Governmental activities:							
General government	28,759	26,739	-	-	28,759	26,739	7.55
Police	124,204	106,676	-	-	124,204	106,676	16.43
Fire	74,606	65,622	-	-	74,606	57,799	13.69
Public works	-	108,413	-	-	-	108,413	n/a
General services	21,502	-	-	-	21,502	-	n/a
Transportation	71,871	-	-	-	71,871	-	n/a
Economic development	-	4,283	-	-	-	4,283	n/a
Convention, culture & leisure	6,824	6,823	-	-	6,824	6,823	0.01
Parks and recreation	44,534	41,486	-	-	44,534	41,486	7.35
Planning and building	-	18,780	-	-	-	18,780	n/a
Development services	67,852	-	-	-	67,852	-	n/a
Neighborhood services	7,880	6,883	-	-	7,880	6,883	14.48
Housing and redevelopment	64,018	46,774	-	-	64,018	46,774	36.87
Library	8,505	8,185	-	-	8,505	8,185	3.91
Nondepartmental	36,492	32,473	-	-	36,492	32,473	12.38
Interest on long-term debt	31,752	29,306	-	-	31,752	29,306	8.35
Business-type activities:							
Water	-	-	51,950	47,843	51,950	47,843	8.58
Sewer	-	-	13,447	12,734	13,447	12,734	5.60
Storm drainage	-	-	34,988	27,010	34,988	27,010	29.54
Solid waste	-	-	39,260	36,102	39,260	36,102	8.75
Community center	-	-	19,066	18,310	19,066	18,310	4.13
Off-street parking	-	-	14,115	13,580	14,115	13,580	3.94
Golf	-	-	6,719	6,846	6,719	6,846	(1.86)
Child development	-	-	5,092	4,492	5,092	4,492	13.36
Marina	-	-	1,684	1,656	1,684	1,656	1.69
Housing and redevelopment	-	-	135,282	123,892	135,282	123,892	9.19
Total expenses	588,799	502,443	321,603	292,465	910,402	794,908	14.53
Excess before transfers	66,453	153,714	41,057	17,210	107,510	170,924	(37.10)
Transfers	(9,800)	(25,546)	9,800	25,546	-	-	-
Increase in net assets	$ 56,653	$ 128,168	$ 50,857	$ 42,756	$ 107,510	$ 170,924	(37.10)%

Revenue

The City's total revenue was $1.018 billion for the fiscal year ended June 30, 2005, an increase of 5.4 percent over 2004. Revenue from governmental activities totaled $655 million and revenue from business-type activities totaled $363 million. Capital grants revenue, restricted to the construction of capital assets, comprised 18 percent of the total revenue of the City. Taxes provided 21 percent of the total revenue of the City. Charges for services and operating grants provided 47 percent of the total revenue received during 2005.

Expenses

Expenses of the City for the year totaled $910 million, an increase of 15 percent over 2004. Governmental activity expenses totaled $589 million, or 65 percent of total expenses. Business-type activities incurred $322 million of expenses during the year.

Governmental Activities

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs.

City of Sacramento
Net Cost of Governmental Activities
For the Fiscal Years Ended June 30, 2005 and 2004
(in millions)

	Total Cost of Services		Percentage change	Net Cost (Benefit) of Services		Percentage change
	2005	2004		2005	2004	
Police	$ 124.2	$ 106.7	14.09%	$ 102.2	$ 89.1	14.70%
Fire	74.6	65.6	12.06	55.9	48.2	15.98
Public works	-	108.4	n/a	-	(124.8)	n/a
Transportation	71.9	-	n/a	(3.3)	-	n/a
General Services	21.5	-	n/a	(45.6)	-	n/a
Development Services	67.9	-	n/a	17.2	-	n/a
Parks and recreation	44.5	41.5	6.74	15.0	15.2	(1.32)
Housing and redevelopment	64.0	46.8	26.88	23.2	15.8	46.84
Other	120.2	133.4	(10.98)	100.1	99.2	0.91
Total	$ 588.8	$ 502.4	17.20%	$ 264.7	$ 142.7	85.49%

The cost for all governmental activities this year was $589 million. The City's taxpayers paid for approximately 45 percent of these costs, $265 million. Fees, grants and contributions funded the balance of the costs of governmental activities. The increase in net cost of services for 2005 over 2004 is due to a 28 percent decrease in capital grants and contributions revenue.

Police, Fire, and Parks and Recreation total cost of services increased as a function of increased development in the City. Because of reorganizations in the City, meaningful comparisons can not be made between prior year Public Works costs and the reorganized City functions of Transportation, General Services and Development Services. Increases in population and development did cause an overall cost increase in these areas over comparable costs in last year's public works budget. Housing and Redevelopment costs increased because of greater activities in the CDBG, HOME and CalHOME entitlement programs carried on by SHRA.

Business-type Activities

Total revenue of the City's business-type activities totaled $363 million. Expenses of business-type activities were $322 million. Capital grants and contributions in the water, sewer, solid waste and housing and redevelopment activities provided $35.3 million to finance capital improvements. The costs of capital improvements are reported as capital assets in the statement of net assets, rather than as expenses in the statement of activities. Business-type expenses increased by approximately $29 million because of increased development in the City and increasing services needs fueled by population growth. The business-type activities had an increase of $29.5 million in operating and capital grant revenue over 2004, primarily for Housing and Redevelopment programs.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The City's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The City's governmental funds reported combined fund balances at June 30, 2005 of $575 million, a decrease of $29 million over the previous fiscal year. Although the General Fund's fund balance increased by $15.5 million, a portion of the increase has been used to establish or increase designations of fund balance. The SHRA Capital Projects Fund decreased by $9.5 million, a result of expenditures for redevelopment projects. Other Governmental Funds contributed to the balance of the decrease in fund balances; a result of expenditures for capital projects, debt service and grant programs.

The City's proprietary funds provide the same type of information as the government-wide financial statements in greater detail. The City's proprietary funds reported combined net assets of $937 million at June 30, 2005, an increase of $51 million over 2004. The change in net assets was due to an overall operating loss of $106 million, offset by net non-operating revenues of $112 million, the changes due mainly to the SHRA Enterprise fund. Capital contributions and transfers provided an increase to net assets of approximately $44 million, and again, most of this related to activity in the SHRA Enterprise fund. All major enterprise funds reported positive changes in net assets, after non-operating items and transfers, with the exception of the Storm Drainage fund, which reported a decrease in net assets of $2.4 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget with adjustments that fall into the following two categories:

- Changes made through the midyear report to adjust current year revenues and appropriations for updated projections, adjust appropriations for the use of prior year department carryover, and establish or release designations of fund balance.
- Other revenue adjustments and appropriations approved after the original budget is adopted, and before or after the midyear report is approved.

The major changes from the approved budget were an increase in the revenue budget to reflect stronger tax collections than originally projected. Expenditure budgets were augmented for capital projects and for programming one-time projects from fund balance designations.

After taking into account these adjustments, actual expenditures were $37.7 million lower than final budget amounts. Capital outlay expenditures were less than the current year budget appropriations by $25.8 million because of the carryover of prior-year capital budgets for multi-year projects and unspent current year appropriations. All general government departments except Transportation and Nondepartmental reported favorable expenditure budget variances. The expenditure overrun in Transportation was primarily related to Street Maintenance activities and was funded by excess Transportation Department revenue. The expenditure overrun in the Nondepartmental budget was caused by employee benefit and compensation programs and program support activities. The Nondepartmental overrun was funded by general City revenues.

Revenues were $26.8 million above the final budgeted amount. All revenue categories except miscellaneous items exceeded budgeted estimates. Revenue exceeded budget because of robust increases in tax collections and the early repayment of the Motor Vehicle License Fee loan by the State of California.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the City had invested $2.7 billion in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads, bridges, water, sewer and storm drainage transmission and distribution systems. This represents a net increase for the current fiscal year of $138 million, or 5.4 percent.

Capital Assets
(net of depreciation, in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Capital assets not being depreciated:						
Land and improvements	$ 118	$ 115	$ 63	$ 62	$ 181	$ 177
Construction in progress	250	280	162	287	412	567
Depreciable capital assets:						
Buildings and improvements	324	253	376	377	700	630
Equipment	5	4	16	14	21	18
Vehicles	41	42	-	-	41	42
Transmission and distribution systems	-	-	673	474	673	474
Road network	557	557	-	-	557	557
Street light network	85	79	-	-	85	79
Parks and park improvements	30	17	-	-	30	17
Total	$ 1,410	$ 1,347	$1,290	$1,214	$ 2,700	$ 2,561

This year's major capital asset additions included:

- Roadway infrastructure and streetlights in the North Natomas area were dedicated to the City by developers at an estimated fair market value of $13 million.

- Water transmission and distribution systems infrastructure was financed mostly by debt proceeds, private developer contributions and grants, with current year costs of $191 million, of which the E. A. Fairbairn and Sacramento River water treatment plants expansions added approximately $175 million.
- Sewer and storm drainage transmission and distribution systems infrastructure was financed mostly by private developer contributions, grants and community facilities districts, with current year costs of approximately $29 million.
- The construction of the new Civic Center and the refurbishing of the historic City Hall added $75 million to buildings and improvements of governmental activities.
- The construction of the 911 dispatch and training facility, and fire stations added approximately $14 million to construction in progress of governmental activities. The Howe Avenue Water Transmission Main project added approximately $8 million to construction in progress of business-type activities.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

At June 30, 2005 and 2004, the City had $1.057 and $1.051 billion, respectively, in long-term debt outstanding; not including $116 million of debt for the City's discretely presented component units. More detailed information about the City's total long-term liabilities is presented in Note 7 to the financial statements.

Outstanding debt of governmental activities decreased approximately $19 million primarily due to principal payments on existing debt during the year. Outstanding debt of business-type activities increased approximately $25 million primarily due to new debt issued by the redevelopment agency in the amount of $40 million to acquire, rehabilitate and develop a 182-unit residential housing complex known as Phoenix Park, offset by decreases for principal payments on existing debt of about $15 million during the year.

City of Sacramento
Outstanding Debt
June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue and other bonds, net	$ 428	$ 441	$ 397	$ 381	$ 825	$ 822
Tax allocation bonds	137	144	-	-	137	144
Certificates of participation, net	-	1	-	-	-	1
Notes payable	16	15	75	67	91	82
Capital lease obligations	3	2	1	-	4	2
Total	$ 584	$ 603	$ 473	$ 448	$ 1,057	$1,051

The City continues to maintain excellent credit ratings on all of its debt issues. The following are the ratings at June 30, 2005 as determined by Moody's Investors Service and Standard & Poor's. These ratings have not changed subsequent to year-end.

	Moody's	S & P
Insured issues:		
• 1993 Refunded Lease Revenue Bonds, Series A	Aaa	Aa
• 1995 Gas Tax Revenue Bonds, Series A	Aaa	AAA
• 1996 Lighting and Landscape Bonds	Aaa	AAA
• 1997 Lease Revenue Bonds	Aaa	AAA
• 1999 Capital Improvement Revenue Bonds	Aaa	AAA
• 2001 Capital Improvement Revenue Bonds, Series A	Aaa	AAA
• 2002 Capital Improvement Revenue Bonds, Series A	Aaa	AAA
• 2003 Capital Improvement Revenue Bonds	Aaa	AAA
Uninsured issues:		
• 1991 Marks-Roos Revenue Bonds	A2	A+p
• 1993 Refunded Lease Revenue Bonds, Series B	A1	AA-
• 2000 Capital Improvement Revenue Bonds	Aa3	AA-
• 2002 Refunding Revenue Bonds	A1	AA-

The City's bonded debt per capita is a useful indicator to citizens and investors of the City's debt position. The bonded debt per capita at June 30, 2005 and 2004 was $2,380 and $2,454, respectively, a decrease of 3 percent from the prior year. This decrease is due to a modest increase in bonded debt coupled with an increase in the City's population for the year. Bonded debt includes debt issued by SHRA; it does not include special assessment debt, conduit debt, or mortgage insured bonds for which the City is not obligated.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

The City's financial status and budget outlook continue to improve, yet the City faces significant fiscal challenges. These include:

- The City is facing the challenge of maintaining services levels in the context of unprecedented growth in population and housing. The City must dedicate resources to expanding staffing and budget to provide services to the new residents and development.

- Labor, health care and pension costs continue to increase.

- State budget actions are certain to affect the City. City property tax revenue will be reduced due to the transfer of property tax revenue to school districts; grant funding is at risk as are jail booking fees.

- The City will not be immune from the budget actions of other governmental agencies. City residents depend on County services, and City departments are affected by reductions in County services. The County is largely dependent on the Federal and State governments for program funding. Federal and State budget actions that affect the County may adversely affect the City.

Economic factors that may favorably affect the City in the longer term include:

- In November 2004, the voters of the State approved Proposition 1A which provides for the return, in fiscal year 2006/07, of the annual property tax reduction referred to above. The proposition also greatly reduces the State's ability to permanently tax municipal revenues in the future.

- Local economic conditions are improving. Employment levels are slowly increasing. The real estate market has been very strong for three consecutive years. There has been recent growth in sales tax receipts both within the City and the region.

Next Year's Budget

The General Fund budget for 2006 appropriates $352 million, an increase of 7 percent over the prior year. General Fund revenue for 2005 is projected to be $347 million, an increase of 13 percent over 2005. The City plans to draw on fund balance to bridge the gap between projected revenue and appropriations. These increases for 2006 reflect the increasing demand for services that accompany the growth of the City.

The 2006 budget for Utilities includes a second year of rate increases for water and sewer services that will be used to address infrastructure rehabilitation and replacement needs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Fourth Floor, Sacramento, CA, 95814, or visit the City's web page at www.cityofsacramento.org.

Government-wide Financial Statements

City of Sacramento
Statement of Net Assets
June 30, 2005
(in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and investments	$ 663,259	$ 118,013	$ 781,272	$ 226
Receivables, net	285,939	43,408	329,347	17,257
Internal balances	35,227	(35,057)	170	-
Inventories	1,021	1,700	2,721	119
Prepaid items	437	65	502	84
Restricted cash and investments	42,413	59,211	101,624	19,513
Deferred charges	6,304	6,284	12,588	3,460
Land and other capital assets not being depreciated	368,451	225,275	593,726	4,954
Other capital assets, net of depreciation	1,041,139	1,064,297	2,105,436	70,722
Total assets	2,444,190	1,483,196	3,927,386	116,335
LIABILITIES				
Securities lending obligations	111,214	26,528	137,742	-
Payables	68,429	22,774	91,203	7,758
Unearned revenue	24,667	1,603	26,270	5
Long-term liabilities:				
Due within one year	62,905	13,792	76,697	330
Due in more than one year	658,344	481,845	1,140,189	115,352
Total liabilities	925,559	546,542	1,472,101	123,445
NET ASSETS				
Invested in capital assets, net of related debt	1,223,934	839,889	2,063,823	(14,704)
Restricted for:				
Capital projects	52,573	200	52,773	-
Debt service	9,882	-	9,882	4,744
Housing and redevelopment	274,130	1,776	275,906	-
Trust and endowments:				
Expendable	1,927	-	1,927	-
Nonexpendable	2,920	-	2,920	-
Other	24,801	1,038	25,839	1,339
Unrestricted (deficit)	(71,536)	93,751	22,215	1,511
Total net assets	$ 1,518,631	$ 936,654	$ 2,455,285	$ (7,110)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Activities
For the Fiscal Year Ended June 30, 2005
(in thousands)

Functions/Programs	Operating Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government:						
Governmental activities:						
General government	$ 37,210	$ (8,451)	$ 4,768	$ -	$ 332	$ (23,659)
Police	124,204	-	3,456	18,559	-	(102,189)
Fire	74,606	-	16,854	1,856	-	(55,896)
General services	24,053	(2,551)	7,600	737	2,960	(10,205)
Transportation	71,871	-	12,097	15,966	47,062	3,254
Convention, culture & leisure	6,824	-	1,970	702	180	(3,972)
Parks and recreation	44,534	-	4,794	8,642	16,110	(14,988)
Development services	67,852	-	43,941	51	62,459	38,599
Neighborhood services	7,880	-	2,714	250	-	(4,916)
Housing and redevelopment	64,018	-	1,311	30,289	9,251	(23,167)
Library	8,505	-	-	-	-	(8,505)
Nondepartmental	36,492	-	494	-	8,680	(27,318)
Interest on long-term debt	31,752	-	-	-	-	(31,752)
Total governmental activities	599,801	(11,002)	99,999	77,052	147,034	(264,714)
Business-type activities:						
Water	49,344	2,606	49,009	-	14,722	11,781
Sewer	12,413	1,034	16,332	-	11,554	14,439
Storm drainage	32,893	2,095	31,336	-	-	(3,652)
Solid waste	35,369	3,891	42,241	484	-	3,465
Community center	18,656	410	6,391	-	-	(12,675)
Off-street parking	13,693	422	16,422	-	-	2,307
Golf	6,375	344	6,408	-	-	(311)
Child development	5,092	-	4,766	597	-	271
Marina	1,484	200	1,745	-	-	61
Housing and redevelopment	135,282	-	13,720	111,245	9,042	(1,275)
Total business-type activities	310,601	11,002	188,370	112,326	35,318	14,411
Total primary government	$ 910,402	$ -	$ 288,369	$ 189,378	$ 182,352	$ (250,303)
Component units:						
Sacramento Hotel Corporation	$ 35,510	$ -	$ 32,197	$ -	$ -	$ (3,313)
Sacramento Regional Arts Facilities Financing Authority	757	-	-	-	-	(757)
Total component units	$ 36,267	$ -	$ 32,197	$ -	$ -	$ (4,070)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Activities
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Change in net assets:				
Net (expense) revenue	$ (264,714)	$ 14,411	$ (250,303)	$ (4,070)
General revenues:				
Taxes:				
Property taxes	70,456	-	70,456	-
Redevelopment tax increment	40,676	-	40,676	-
Utility user taxes	53,893	-	53,893	-
Other taxes	30,668	14,398	45,066	-
Sales taxes shared state revenue	55,342	-	55,342	-
In-lieu sales tax	15,284	-	15,284	-
In-lieu motor vehicle tax	28,393	-	26,393	-
Investment earnings	24,751	4,342	29,093	1,305
Miscellaneous	10,267	1,015	11,282	-
Gain on disposition of capital assets	3,437	6,891	10,328	-
Transfers	(9,800)	9,800	-	-
Total general revenues and transfers	321,367	36,446	357,813	1,305
Change in net assets	56,653	50,857	107,510	(2,765)
Net assets, beginning of year	1,461,978	885,797	2,347,775	(4,345)
Net assets, end of year	$ 1,518,631	$ 936,654	$ 2,455,285	$ (7,110)

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements

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City of Sacramento
Balance Sheet
Governmental Funds
June 30, 2005
(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
ASSETS			
Cash and investments held by City	$ 192,403	$ 141,034	$ 23,375
Cash and investments held by fiscal agent	-	-	-
Receivables, net:			
Taxes	19,871	-	1,484
Accounts	15,595	315	358
Loans	1,498	49,578	49,960
Intergovernmental	-	2,790	3,561
Interest	1,033	-	-
Due from other funds	-	2,925	2,920
Prepaid items	368	-	-
Restricted assets:			
Cash and investments held by City	115	744	2,693
Cash and investments held by fiscal agent	-	-	-
Advances to other funds	400	7,885	12,378
Total assets	$ 231,283	$ 205,271	$ 96,729

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Balance Sheet
Governmental Funds
June 30, 2005
(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments held by City	$ 1,773	$ 69,793	$ 176,532	$ 604,910
Cash and investments held by fiscal agent	119	-	3,107	3,226
Receivables, net:				
Taxes	-	-	6,079	27,434
Accounts	-	646	10,373	27,287
Loans	72,290	-	2,222	175,548
Intergovernmental	-	1,172	44,728	52,251
Interest	952	181	819	2,985
Due from other funds	-	-	-	5,845
Prepaid items	-	14	8	390
Restricted assets:				
Cash and investments held by City	2,490	-	25,740	31,782
Cash and investments held by fiscal agent	-	-	10,126	10,126
Advances to other funds	-	-	1,118	21,781
Total assets	$ 77,624	$ 71,806	$ 280,852	$ 963,565

The notes to the financial statements are an integral part of this statement.

(continued)

City of Sacramento
Balance Sheet
Governmental Funds
June 30, 2005
(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
Liabilities:			
Securities lending obligations	$ 43,010	$ 9,841	$ -
Accounts payable	30,768	1,553	4,094
Due to other funds	-	1,756	723
Matured bonds and interest payable	-	-	-
Deposits	298	227	1,363
Deferred revenue	3,168	590	69,139
Advances from other funds	613	974	1,008
Total liabilities	77,857	14,941	76,327
Fund balances:			
Reserved:			
For noncurrent assets	1,305	57,463	9,708
For encumbrances	10,790	20,054	132
For debt service	-	744	2,432
For housing redevelopment	-	105,627	997
For trust obligations	-	-	-
Unreserved:			
Designated for economic uncertainty	30,000	-	-
Designated for capital projects	20,601	-	-
Designated for future labor costs	12,000	-	-
Designated for future PERS costs	7,800	-	-
Designated for disaster recovery	6,000	-	-
Designated for grant match	2,200	-	-
Designated for growth initiatives	7,500	-	-
Designated for state impacts	2,900	-	-
Designated for subsequent years' expenditures	38,897	-	-
Undesignated	13,433	6,442	7,133
Unreserved, reported in:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Permanent funds	-	-	-
Total fund balances	153,426	190,330	20,402
Total liabilities and fund balances	$ 231,283	$ 205,271	$ 96,729

(continued)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Balance Sheet
Governmental Funds
June 30, 2005
(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
Liabilities:				
Securities lending obligations	$ -	$ 7,538	$ 28,053	$ 88,442
Accounts payable	-	1,957	17,155	55,527
Due to other funds	-	-	24,335	26,814
Matured bonds and interest payable	-	-	2,894	2,894
Deposits	-	710	954	3,552
Deferred revenue	73,242	2,127	55,790	204,056
Advances from other funds	-	-	4,486	7,081
Total liabilities	73,242	12,332	133,667	388,366
Fund balances:				
Reserved:				
For noncurrent assets	-	-	3,340	71,816
For encumbrances	-	8,105	39,294	78,375
For debt service	2,490	-	19,055	24,721
For housing redevelopment	-	-	-	106,624
For trust obligations	-	-	1,927	1,927
Unreserved:				
Designated for economic uncertainty	-	-	-	30,000
Designated for capital projects	-	30,451	-	51,052
Designated for future labor costs	-	-	-	12,000
Designated for future PERS costs	-	-	-	7,800
Designated for disaster recovery	-	-	-	6,000
Designated for grant match	-	-	-	2,200
Designated for growth initiatives	-	-	-	7,500
Designated for state impacts	-	-	-	2,900
Designated for subsequent years' expenditures	119	6,031	-	45,047
Undesignated	1,773	14,887	-	43,668
Unreserved, reported in:				
Special revenue funds	-	-	16,722	16,722
Debt service funds	-	-	12,067	12,067
Capital projects funds	-	-	51,860	51,860
Permanent funds	-	-	2,920	2,920
Total fund balances	4,382	59,474	147,185	575,199
Total liabilities and fund balances	$ 77,624	$ 71,806	$ 280,852	$ 963,565

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005
(in thousands)

Fund balances - total governmental funds		$ 575,199
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in the funds.		179,854
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.		6,240
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	2,180,386	
Less: accumulated depreciation	(815,998)	
		1,364,388
Certain current liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:		
Interest payable	(3,740)	
		(3,740)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued compensated absences	(33,805)	
Financing fee plan credits	(30,976)	
Revenue and other bonds payable, net	(419,348)	
Capital lease obligations payable	(2,549)	
Certificates of participation payable, net	(324)	
Tax allocation bonds payable	(138,029)	
Notes payable	(16,440)	
		(641,471)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		38,161
Net assets of governmental activities		$ 1,518,631

The notes to the financial statements are an integral part of this statement.

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City of Sacramento

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
Revenues:			
Taxes	$ 224,297	$ -	$ 8,334
Intergovernmental	48,257	11,493	22,658
Charges for services	49,071	18	1,293
Fines, forfeits and penalties	6,288	-	-
Interest, rents, and concessions	3,867	1,227	2,049
Community service fees	-	-	-
Assessment levies	-	-	
Contributions from property owners	-	-	-
Donations	-	-	-
Miscellaneous	310	1,468	1,824
Total revenues	332,090	14,206	36,158
Expenditures:			
Current:			
General government	25,440	-	-
Police	104,251	-	-
Fire	71,675	-	-
General services	8,372	-	-
Utilities	219	-	-
Transportation	5,249	-	-
Convention, culture and leisure	3,773	-	-
Parks and recreation	21,796	-	-
Development services	22,379	-	-
Neighborhood services	7,630	-	-
Library	7,997	-	-
Housing and redevelopment	-	22,667	35,732
Nondepartmental	26,952	-	-
Capital outlay	11,294	9,865	364
Debt service:			
Principal	2,007	150	2,469
Interest and fiscal charges	202	60	2,710
Total expenditures	319,236	32,742	41,275
Excess (deficiency) of revenues over (under) expenditures	12,854	(18,536)	(5,117)
Other financing sources (uses):			
Transfers in	21,173	11,336	1,289
Transfers out	(20,656)	(2,944)	(2,219)
Proceeds from long-term debt	2,100	-	-
Proceeds from sale of property	-	656	4,630
Total other financing sources (uses)	2,617	9,048	3,700
Net change in fund balances	15,471	(9,488)	(1,417)
Fund balances, beginning of year	137,955	199,818	21,819
Fund balances, end of year	$ 153,426	$ 190,330	$ 20,402

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ -	$ 4,722	$ 32,342	$ 269,695
Intergovernmental	-	26,737	58,303	167,448
Charges for services	-	7,563	891	58,836
Fines, forfeits and penalties	-	1,513	3	7,804
Interest, rents, and concessions	508	1,683	7,944	17,278
Community service fees	-	984	39,331	40,315
Assessment levies	-	-	18,443	18,443
Contributions from property owners	7,831	-	38,512	46,343
Donations	-	-	63	63
Miscellaneous	-	1	67	3,670
Total revenues	8,339	43,203	195,899	629,895
Expenditures:				
Current:				
General government	-	-	446	25,886
Police	-	-	17,297	121,548
Fire	-	-	1,685	73,360
General services	-	-	7,953	16,325
Utilities	-	-	-	219
Transportation	-	12,798	3,991	22,038
Convention, culture and leisure	-	-	1,074	4,847
Parks and recreation	-	-	17,102	38,898
Development services	-	8,642	35,764	66,785
Neighborhood services	-	-	250	7,880
Library	-	-	-	7,997
Housing and redevelopment	-	-	-	58,399
Nondepartmental	-	149	5,183	32,284
Capital outlay	-	17,136	98,727	137,386
Debt service:				
Principal	420	-	29,192	34,238
Interest and fiscal charges	4,942	-	27,883	35,797
Total expenditures	5,362	38,725	246,547	683,887
Excess (deficiency) of revenues over (under) expenditures	2,977	4,478	(50,648)	(53,992)
Other financing sources (uses):				
Transfers in	-	-	23,746	57,544
Transfers out	-	(3,163)	(24,226)	(53,208)
Proceeds from long-term debt	-	-	12,883	14,983
Proceeds from sale of property	-	-	-	5,286
Total other financing sources (uses)	-	(3,163)	12,403	24,605
Net change in fund balances	2,977	1,315	(38,245)	(29,387)
Fund balances, beginning of year	1,405	58,159	185,430	604,586
Fund balances, end of year	$ 4,382	$ 59,474	$ 147,185	$ 575,199

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

Net change in fund balances - total governmental funds		$ (29,387)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	130,289	
Depreciation expense	(61,294)	
		68,995
The net effect of various transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(1,825)
Revenues in the statement of activities that do not provide current financial resources arenot reported as revenues in the governmental funds - infrastructure dedications.		12,847
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(14,983)	
Principal repayments on long-term debt	34,238	
		19,255
Earned deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in governmental funds. Revenue in the statement of activities is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net increase in revenues - unavailable revenues at the end of the year exceed beginning unavailable revenues by this amount.		6,908

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(3,094)	
Accrued interest	(61)	
Amortization of issuance costs	(326)	
Amortization of bond discount	(46)	
Amortization of bond premium	283	
Amortization of gain/loss on refunding	(98)	
		(3,342)
Capital assets transferred from governmental activities to business-type activities are reported as transfers in the statement of activities. The transfers are not reported in the governmental funds as the amount did not involve the transfer of financial resources.		(11,170)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(5,628)
Change in net assets of governmental activities		$ 56,653

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) with Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2005

(in thousands)

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Budget to GAAP Reconciliation	Actual Amounts - GAAP Basis
	Original	Final				
Revenues:						
Taxes	$199,690	$211,680	$224,297	$ 12,617	$ -	$ 224,297
Intergovernmental	36,951	38,027	48,257	10,230	-	48,257
Charges for services	43,880	45,490	49,071	3,581	-	49,071
Fines, forfeits and penalties	5,462	5,931	6,288	357	-	6,288
Interest, rents, and concessions	3,567	3,583	3,867	284	-	3,867
Miscellaneous	945	550	310	(240)	-	310
Total revenues	290,495	305,261	332,090	26,829	-	332,090
Expenditures:						
Current:						
Charter offices	11,540	12,340	11,159	1,181	103	11,262
Administrative services	16,567	17,372	14,397	2,975	(219)	14,178
Subtotal - General government	28,107	29,712	25,556	4,156	(116)	25,440
Police	106,150	106,151	104,387	1,764	(136)	104,251
Fire	72,848	74,526	71,717	2,809	(42)	71,675
General services	8,484	9,333	8,206	1,127	166	8,372
Utilities	219	219	219	-	-	219
Transportation	5,733	5,824	5,908	(84)	(659)	5,249
Convention, culture and leisure	4,037	4,198	3,782	416	(9)	3,773
Parks and recreation	21,995	22,426	22,168	258	(372)	21,796
Development services	23,205	23,920	21,766	2,154	613	22,379
Neighborhood services	6,836	8,006	7,689	317	(59)	7,630
Library	7,997	7,997	7,997	-	-	7,997
Nondepartmental	23,541	26,184	27,252	(1,068)	(300)	26,952
Capital outlay	26,395	34,766	8,942	25,824	2,352	11,294
Debt service:						
Principal	410	2,231	2,231	-	(224)	2,007
Interest and fiscal charges	117	202	202	-	-	202
Total expenditures	336,074	355,695	318,022	37,673	1,214	319,236
Excess (deficiency) of revenues over (under) expenditures	(45,579)	(50,434)	14,068	64,502	(1,214)	12,854
Other financing sources (uses):						
Transfers in	18,448	18,969	21,173	2,204	-	21,173
Transfers out	(19,106)	(19,606)	(20,656)	(1,050)	-	(20,656)
Proceeds from long-term debt	-	2,100	2,100	-	-	2,100
Total other financing sources (uses)	(658)	1,463	2,617	1,154	-	2,617
Net change in fund balance	$ (46,237)	$ (48,971)	$ 16,685	$ 65,656	$ (1,214)	$ 15,471

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

SHRA Special Revenue Fund

For the Fiscal Year Ended June 30, 2005

(in thousands)

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Revenues:				
Intergovernmental	$ 912	$ 912	$ 927	$ 15
Interest, rents, and concessions	172	173	76	(97)
Miscellaneous	-	225	495	270
Total revenues	1,084	1,310	1,498	188
Expenditures:				
General Housing Reserve	379	379	98	281
Local Housing Revenue	2,062	2,222	2	2,220
County Mather Transitional Housing	395	395	410	(15)
City Public Homeownership	816	813	648	165
County Public Homeownership	767	765	268	497
Riverview Plaza Reserve	194	194	124	70
City Local Tax	1,175	1,175	1,173	2
County Local Tax	355	355	354	1
Total expenditures	6,143	6,298	3,077	3,221
Excess (deficiency) of revenues over (under) expenditures	(5,059)	(4,988)	(1,579)	3,409
Other financing sources (uses):				
Transfers in	197	197	197	-
Transfers out	(665)	(665)	(579)	86
Proceeds from sale of property	780	780	521	(259)
Total other financing sources (uses)	312	312	139	(173)
Net change in fund balances for budgeted activities	$ (4,747)	$ (4,676)	(1,440)	$ 3,236
Net change in fund balances for SHRA Special Revenue Fund activities for which annual budgets are not adopted.			23	
Net change in fund balance			$ (1,417)	

The notes to the financial statements are an integral part of this statement.

City of Sacramento

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Transportation and Development Fund

For the Fiscal Year Ended June 30, 2005

(in thousands)

	Budgeted Amounts: Original	Budgeted Amounts: Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Revenues:				
Intergovernmental	$ 15,824	$ 15,824	$ 16,572	$ 748
Charges for services	-	-	363	363
Fines, forfeits and penalties	1,500	1,500	1,513	13
Interest, rents, and concessions	884	884	709	(175)
Community service fees	-	-	2	2
Miscellaneous	-	-	1	1
Total revenues	18,208	18,208	19,160	952
Expenditures:				
Current:				
Transportation	14,201	14,201	12,525	1,676
Development services	1,626	4,591	3,090	1,501
Capital outlay	12,290	14,395	5,294	9,101
Total expenditures	28,117	33,187	20,909	12,278
Excess (deficiency) of revenues over (under) expenditures	(9,909)	(14,979)	(1,749)	13,230
Other financing sources:				
Transfers out	(1,737)	(1,852)	(2,984)	(1,132)
Net change in fund balances for budgeted activities	$ (11,646)	$ (16,831)	(4,733)	$ 12,098
Net change in fund balances for Transportation and Development Fund activities for which annual budgets are not adopted.			6,048	
Net change in fund balance			$ 1,315	

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City of Sacramento
Statement of Net Assets
Proprietary Funds
June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
ASSETS				
Current assets:				
Cash and investments held by City	$ 37,481	$ 11,155	$ 34,522	$ 162
Cash and investments held by fiscal agent	-	-	-	-
Receivables, net:				
Taxes	-	-	-	-
Accounts	5,768	5,640	4,907	7,160
Loans	535	103	308	-
Intergovernmental	289	252	198	376
Interest	357	21	282	-
Due from other funds	-	-	-	-
Inventories	1,239	69	178	-
Prepaid items	-	-	-	34
Total current assets	45,669	17,240	40,395	7,732
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	13,228	394	1,315	3,746
Cash and investments held by fiscal agent	-	-	765	11
Advances to other funds	-	-	-	-
Loans receivable	2,721	1,841	5,522	-
Deferred charges	2,731	-	65	621
Capital assets:				
Land	644	1,137	8,080	1,133
Buildings and improvements	32,431	14,906	7,995	31,191
Machinery and equipment	3,297	1,461	9,502	2,071
Vehicles	-	-	-	-
Transmission and distribution system	450,822	114,733	266,112	-
Construction in progress	30,859	7,660	75,564	3,337
Less: accumulated depreciation	(88,258)	(32,941)	(58,432)	(7,725)
Total noncurrent assets	448,475	109,191	316,488	34,385
Total assets	494,144	126,431	356,883	42,117

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Net Assets
Proprietary Funds
June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities -
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments held by City	$ 5,966	$ 5,029	$ 21,573	$ 115,888	$ 55,037
Cash and investments held by fiscal agent	2,125	-	-	2,125	86
Receivables, net:					
Taxes	1,799	-	-	1,799	-
Accounts	148	871	1,227	25,721	186
Loans	-	-	-	946	-
Intergovernmental	-	2,640	-	3,755	77
Interest	114	-	154	928	171
Due from other funds	-	755	-	755	25,917
Inventories	-	214	-	1,700	1,021
Prepaid items	2	22	7	65	47
Total current assets	10,154	9,531	22,961	153,682	82,542
Noncurrent assets:					
Restricted assets:					
Cash and investments held by City	92	24,926	2,407	46,108	505
Cash and investments held by fiscal agent	9,804	-	2,523	13,103	-
Advances to other funds	-	19,000	200	19,200	16,579
Loans receivable	50	125	-	10,259	-
Deferred charges	1,796	392	679	6,284	64
Capital assets:					
Land	21,739	17,827	12,569	63,129	-
Buildings and improvements	110,444	239,377	89,666	526,010	5,982
Machinery and equipment	2,695	4,390	5,147	28,563	3,407
Vehicles	-	-	-	-	92,434
Transmission and distribution system	-	-	3,622	835,289	-
Construction in progress	42	43,207	1,477	162,146	1,439
Less: accumulated depreciation	(35,235)	(70,049)	(32,925)	(325,565)	(58,060)
Total noncurrent assets	111,427	279,195	85,365	1,384,526	62,350
Total assets	121,581	288,726	108,326	1,538,208	144,892

The notes to the financial statements are an integral part of this statement. (continued)

City of Sacramento
Statement of Net Assets
Proprietary Funds
June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
LIABILITIES				
Current liabilities:				
Securities lending obligations	12,418	-	8,838	-
Accounts payable and accrued expenses	4,282	2,697	1,672	2,296
Accrued compensated absences	125	27	91	77
Due to other funds	-	-	-	2,007
Interest payable	827	124	448	122
Liability for landfill closure	-	-	-	760
Deposits	-	-	-	-
Deferred revenue	-	-	1	174
Accrued claims	-	-	-	-
Revenue and other bonds payable, net, current portion	3,200	-	257	523
Certificates of participation payable, net, current portion	-	-	-	-
Capital lease payable, current portion	-	-	-	227
Notes payable, current portion	-	599	1,797	-
Total current liabilities	20,852	3,447	13,104	6,186
Noncurrent liabilities:				
Accrued compensated absences	1,795	577	1,709	1,086
Advances from other funds	-	-	-	-
Accrued claims	-	-	-	-
Liability for landfill closure	-	-	-	14,430
Revenue and other bonds payable, net	189,167	-	7,965	25,464
Capital lease payable	-	-	-	919
Notes payable	-	10,634	31,901	-
Total noncurrent liabilities	190,962	11,211	41,575	41,899
Total liabilities	211,814	14,658	54,679	48,085
NET ASSETS				
Invested in capital assets, net of related debt	249,828	95,888	268,533	6,499
Restricted for:				
Housing and redevelopment	-	-	-	-
Capital projects	-	-	-	-
Other	-	-	-	-
Unrestricted (deficit)	32,502	15,885	33,671	(12,467)
Total net assets (deficit)	$ 282,330	$ 111,773	$ 302,204	$ (5,968)

(continued)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Net Assets
Proprietary Funds
June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities -
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES					
Current liabilities:					
Securities lending obligations	-	-	5,272	26,528	22,772
Accounts payable and accrued expenses	883	4,817	1,683	18,330	6,164
Accrued compensated absences	28	-	45	393	1,868
Due to other funds	-	3,525	-	5,532	-
Interest payable	1,115	-	632	3,268	20
Liability for landfill closure	-	-	-	760	-
Deposits	-	1,073	103	1,176	-
Deferred revenue	963	141	324	1,603	465
Accrued claims	-	-	-	-	21,422
Revenue and other bonds payable, net, current portion	4,354	-	1,379	9,713	241
Certificates of participation payable, net, current portion	15	-	-	15	-
Capital lease payable, current portion	-	-	-	227	-
Notes payable, current portion	-	57	231	2,684	-
Total current liabilities	7,358	9,613	9,669	70,229	52,952
Noncurrent liabilities:					
Accrued compensated absences	520	-	822	6,509	2,190
Advances from other funds	9,144	33,755	6,581	49,480	1,000
Accrued claims	-	-	-	-	45,549
Liability for landfill closure	-	-	-	14,430	-
Revenue and other bonds payable, net	90,659	-	50,553	363,808	5,040
Capital lease payable	-	-	-	919	-
Notes payable	-	46,969	6,675	96,179	-
Total noncurrent liabilities	100,323	80,724	64,631	531,325	53,779
Total liabilities	107,681	90,337	74,300	601,554	106,731
NET ASSETS					
Invested in capital assets, net of related debt	13,438	184,044	21,659	839,889	39,899
Restricted for:					
Housing and redevelopment	-	1,776	-	1,776	505
Capital projects	-	-	200	200	-
Other	-	1,038	-	1,038	-
Unrestricted (deficit)	462	11,531	12,167	93,751	(2,243)
Total net assets (deficit)	$ 13,900	$ 198,389	$ 34,026	$ 936,654	$ 38,161

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Operating revenues:				
Charges for services:				
User fees and charges	$ 47,164	$ 15,506	$ 31,275	$ 41,416
Rents and concessions	-	-	-	-
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	800	-	-
Miscellaneous	1,845	26	61	825
Total operating revenues	49,009	16,332	31,336	42,241
Operating expenses:				
Employee services	16,285	6,013	14,999	13,200
Services and supplies	15,343	3,939	9,004	23,272
Housing assistance payments	-	-	-	-
Depreciation	9,916	3,227	9,424	1,269
Insurance premiums	-	-	-	-
Claims expense	-	-	-	-
Total operating expenses	41,544	13,179	33,427	37,741
Operating income (loss)	7,465	3,153	(2,091)	4,500
Nonoperating revenues (expenses):				
Intergovernmental	-	-	-	-
Interest and investment revenue	1,400	338	993	47
Transient occupancy taxes	-	-	-	-
Revenue from other agencies	-	-	-	484
Interest expense	(10,305)	(268)	(1,557)	(1,494)
Amortization of deferred charges	(101)	-	(4)	(25)
Gain or (loss) on disposition of capital assets	62	(4)	-	-
Total nonoperating revenues (expenses)	(8,944)	66	(568)	(988)
Income (loss) before contributions and transfers	(1,479)	3,219	(2,659)	3,512
Capital contributions	14,722	11,554	-	-
Transfers in	5,761	2,309	3,673	981
Transfers out	(4,910)	(1,699)	(3,438)	(4,493)
Change in net assets	14,094	15,383	(2,424)	-
Total net assets (deficit), beginning of year	268,236	96,390	304,628	(5,968)
Total net assets (deficit), end of year	$ 282,330	$ 111,773	$ 302,204	$ (5,968)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	
Operating revenues:					
Charges for services:					
User fees and charges	$ 1,921	$ 13,720	$ 26,542	$ 177,544	$ 60,677
Rents and concessions	4,359	-	2,537	6,896	-
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	-	-	800	-
Miscellaneous	111	1,770	262	4,900	798
Total operating revenues	6,391	15,490	29,341	190,140	61,475
Operating expenses:					
Employee services	5,122	14,249	10,264	80,132	13,845
Services and supplies	4,854	17,028	10,574	84,014	21,513
Housing assistance payments	-	96,818	-	96,818	-
Depreciation	2,573	6,245	2,852	35,506	8,589
Insurance premiums	-	-	-	-	1,057
Claims expense	-	-	-	-	23,326
Total operating expenses	12,549	134,340	23,690	296,470	68,130
Operating income (loss)	(6,158)	(118,850)	5,651	(106,330)	(6,655)
Nonoperating revenues (expenses):					
Intergovernmental	-	110,490	-	110,490	-
Interest and investment revenue	768	169	627	4,342	2,009
Transient occupancy taxes	14,398	-	-	14,398	-
Revenue from other agencies	-	-	597	1,081	-
Interest expense	(6,385)	(942)	(3,885)	(24,836)	(374)
Amortization of deferred charges	(132)	-	(35)	(297)	(2)
Gain or (loss) on disposition of capital assets	-	6,833	-	6,891	65
Total nonoperating revenues (expenses)	8,649	116,550	(2,696)	112,069	1,698
Income (loss) before transfers	2,491	(2,300)	2,955	5,739	(4,957)
Capital contributions	-	21,362	-	47,638	2,295
Transfers in	1,961	1,526	351	16,562	787
Transfers out	(1,540)	(609)	(2,393)	(19,082)	(3,753)
Change in net assets	2,912	19,979	913	50,857	(5,628)
Total net assets (deficit), beginning of year	10,988	178,410	33,113	885,797	43,789
Total net assets (deficit), end of year	$ 13,900	$ 198,389	$ 34,026	$ 936,654	$ 38,161

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Cash flows from operating activities:				
Receipts from customers and users	$ 49,182	$ 15,779	$ 31,257	$ 41,966
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(16,692)	(4,912)	(8,895)	(23,628)
Payments to employees	(16,322)	(5,974)	(14,832)	(12,972)
Housing assistance payments on behalf of tenants	-	-	-	-
Claims paid	-	-	-	-
Net cash provided by (used for) operating activities	16,168	4,893	7,530	5,366
Cash flows from noncapital financing activities:				
Transient occupancy taxes	-	-	-	-
Revenue from other agencies	-	-	-	484
Transfers in from other funds	-	-	-	981
Transfers out to other funds	(4,897)	(1,659)	(3,408)	(4,452)
Increase in due to other funds	-	-	-	-
Increase in due from other funds	-	-	-	-
Decrease in due to other funds	-	-	-	513
Increase in advances to other funds	-	-	-	-
Increase in advances from other funds	-	-	-	-
Decrease in advances to other funds	-	-	-	-
Decrease in advances from other funds	-	-	-	-
Decrease in intergovernmental receivable	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(4,897)	(1,659)	(3,408)	(2,474)
Cash flows from capital and related financing activities:				
Proceeds from issuance of debt	-	-	-	1,200
Acquisition and construction of capital assets	(30,679)	(5,828)	(6,675)	(2,489)
Proceeds from sale of capital assets	63	-	-	-
Principal payments on capital debt	(3,145)	(585)	(2,109)	(564)
Interest payments on capital debt	(9,995)	(274)	(1,291)	(1,488)
Transfers in from other funds	5,761	2,309	3,673	-
Capital contributions	5,897	348	-	-
Net cash provided by (used for) capital and related financing activities	(32,098)	(4,030)	(6,402)	(3,341)
Cash flows from investing activities:				
Proceeds from sale of investments	-	-	1,232	-
Collection of interest	1,314	406	889	47
Net unrealized investments gains (losses)	(198)	(17)	(162)	-
Loan repayments	502	100	302	-
Change in securities lending obligation	(2,103)	(2,865)	2,074	-
Net cash provided by (used for) investing activities	(485)	(2,376)	4,335	47
Net increase (decrease) in cash and cash equivalents	(21,312)	(3,172)	2,055	(402)
Cash and cash equivalents, beginning of year	72,021	14,721	34,547	4,321
Cash and cash equivalents, end of year	$ 50,709	$ 11,549	$ 36,602	$ 3,919

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	
Cash flows from operating activities:					
Receipts from customers and users	$ 6,828	$ 15,148	$ 28,985	$ 189,145	$ -
Receipts from interfund services provided	-	-	-	-	91,137
Payments to suppliers	(4,970)	(16,721)	(10,769)	(86,587)	(54,029)
Payments to employees	(5,097)	(14,029)	(10,133)	(79,359)	(12,679)
Housing assistance payments on behalf of tenants	-	(96,818)	-	(96,818)	-
Claims paid	-	-	-	-	(15,205)
Net cash provided by (used for) operating activities	(3,239)	(112,420)	8,083	(73,619)	9,024
Cash flows from noncapital financing activities:					
Transient occupancy taxes	14,477	-	-	14,477	-
Revenue from other agencies	-	-	-	484	-
Transfers in from other funds	1,961	1,526	351	4,819	192
Transfers out to other funds	(1,540)	(609)	(2,393)	(18,958)	(2,603)
Increase in due to other funds	-	(8)	(91)	(99)	-
Increase in due from other funds	-	-	-	-	(9,803)
Decrease in due to other funds	-	(10,002)	-	(9,489)	8
Increase in advances to other funds	-	(56)	-	(56)	(1,018)
Increase in advances from other funds	430	12,138	532	13,100	(854)
Decrease in advances to other funds	-	-	-	-	136
Decrease in advances from other funds	-	-	(54)	(54)	-
Intergovernmental revenue received	-	120,837	597	121,434	(25)
Net cash provided by (used for) noncapital					
Net cash (used for) provided by noncapital	15,328	123,826	(1,058)	125,658	(13,967)
Cash flows from capital and related financing activitites					
Proceeds from issuance of debt	-	38,650	200	40,050	-
Acquisition and construction of capital assets	(770)	(29,633)	(3,770)	(79,844)	(5,102)
Proceeds from sale of capital assets	-	123	-	186	380
Principal payments on capital debt	(3,417)	(6,051)	(1,747)	(17,618)	(230)
Interest payments on capital debt	(5,378)	(108)	(3,461)	(21,995)	(240)
Transfers in from other funds	-	-	-	11,743	470
Capital contributions	-	9,042	-	15,287	249
Net cash provided by (used for) capital and related financing activities	(9,565)	12,023	(8,778)	(52,191)	(4,473)
Cash flows from investing activities:					
Proceeds from sale of investments	-	-	-	1,232	-
Collection of interest	691	86	565	3,998	1,741
Net unrealized investments gains (losses)	77	-	(95)	(395)	-
Loan repayments	6	-	-	910	11,177
Change in securities lending obligation	-	-	989	(1,905)	20,234
Net cash provided by (used for) investing activities	774	86	1,459	3,840	33,152
Net increase (decrease) in cash and cash equivalents	3,298	23,515	(294)	3,688	23,736
Cash and cash equivalents, beginning of year	14,689	6,440	26,797	173,536	31,892
Cash and cash equivalents, end of year	$ 17,987	$ 29,955	$ 26,503	$ 177,224	$ 55,628

The notes to the financial statements are an integral part of this statement.

(continued)

City of Sacramento
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 7,465	$ 3,153	$ (2,091)	$ 4,500
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	9,916	3,227	9,424	1,269
Changes in assets and liabilities:				
Accounts receivable	160	(565)	(90)	(304)
Intergovernmental receivables	13	12	11	22
Due from other funds	-	-	-	-
Inventories	196	10	24	-
Prepaid items	-	-	-	9
Due to other funds	-	-	-	-
Accounts payable and accrued expenses	(1,464)	(935)	200	592
Accrued compensated absences	(118)	(9)	52	30
Accrued claims	-	-	-	-
Liability for landfill closure	-	-	-	(760)
Deposits	-	-	-	-
Deferred revenue	-	-	-	8
Net cash provided by (used for) operating activities	$ 16,168	$ 4,893	$ 7,530	$ 5,366
Noncash investing, capital and financing activities:				
Accreted interest on notes payable	$ -	$ -	$ -	$ -
Contributions of capital assets, net of accumulated depreciation	$ 8,838	$ 11,246	$ 30	$ 41
Amortization of bond premium, discount and loss on refunding	$ 75	$ -	$ 113	$ 7
Amortization of deferred charges	$ 101	$ -	$ 4	$ 25

(continued)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities -
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (6,158)	$ (118,850)	$ 5,651	$ (106,330)	$ (6,655)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	2,573	6,245	2,852	35,506	8,589
Changes in assets and liabilities:					
Accounts receivable	295	(300)	(361)	(1,165)	(15)
Intergovernmental receivables	-	-	-	58	-
Due from other funds	-	246	-	246	62
Inventories	-	48	-	278	(238)
Prepaid items	-	(5)	(7)	(3)	-
Due to other funds	-	(204)	-	(204)	-
Accounts payable and accrued expenses	(112)	435	(88)	(1,372)	(1,004)
Accrued compensated absences	21	-	30	6	204
Accrued claims	-	-	-	-	8,121
Liability for landfill closure	-	-	-	(760)	-
Deposits	-	(49)	14	(35)	-
Deferred revenue	142	14	(8)	156	(40)
Net cash provided by (used for) operating activities	$ (3,239)	$ (112,420)	$ 8,083	$ (73,619)	$ 9,024
Noncash investing, capital and financing activities:					
Accreted interest on notes payable	$ -	$ 1,259	$ -	$ 1,259	$ -
Contributions of capital assets, net of accumulated depreciation	$ -	$ 13,916	$ -	$ 34,071	$ 1,021
Amortization of bond premium, discount and loss on refunding	$ 883	$ -	$ 338	$ 1,416	$ 6
Amortization of deferred charges	$ 132	$ -	$ 35	$ 297	$ 2

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(in thousands)

	Pension Trust Fund	Investment Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 211,619	$ 28,050	$ 42,125
Cash and investments held by fiscal agent	-	-	38,184
Receivables, net:			
Accounts	37	-	-
Investment securities sold	16,804	-	-
Interest	2,445	-	55
Total receivables	19,286	-	55
Investments, at fair value:			
U.S. government obligations	26,595	-	-
Corporate bonds	47,472	-	-
Exchange traded funds	29,242	-	-
Equity securities	103,263	-	-
Municipal bonds	6,315	-	-
Mortgage loans	37,081	-	-
Total investments	249,968	-	-
Total assets	480,873	28,050	80,364
LIABILITIES			
Securities lending obligations	90,638	-	-
Accounts payable	2,100	-	-
Payable for investment securities purchased	14,362	-	-
Due to bondholders	-	-	80,354
Deposits	-	-	10
Total liabilities	107,100	-	$ 80,364
NET ASSETS			
Held in trust for pension benefits and other purposes	$ 373,773	$ 28,050	

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Pension Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Employees	$ 809	$ -
Investment earnings:		
Net appreciation in		
fair value of investments	(5,698)	(100)
Interest	12,233	753
Dividends	3,029	-
Total investment earnings	9,564	653
Less investment expenses:		
Banking, interest, and fiscal agent expenses	1,502	41
Professional services	1,213	-
Net investment expenses	2,715	41
Net investment income	6,849	612
Deposits by pool participants	-	27,681
Total additions	7,658	28,293
Deductions:		
Benefits	27,348	-
Refunds of contributions	176	-
Withdrawals by pool participants	-	21,521
Total deductions	27,524	21,521
Change in net assets	(19,866)	6,772
Net assets, beginning of year	393,639	21,278
Net assets, end of year	$ 373,773	$ 28,050

The notes to the financial statements are an integral part of this statement.

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City of Sacramento
Combining Statement of Net Assets
Component Units
June 30, 2005
(in thousands)

	Business-type Activities		
	Sacramento Hotel Corporation	Sacramento Regional Arts Facilities Financing Authority	Total Component Units
ASSETS			
Cash and investments	$ 226	$ -	$ 226
Receivables, net	2,402	14,855	17,257
Inventories	119	-	119
Prepaid items	84	-	84
Restricted cash and investments	18,352	1,161	19,513
Deferred charges	2,791	669	3,460
Land and other capital assets not being depreciated	4,954	-	4,954
Other capital assets, net of depreciation	70,722	-	70,722
Total assets	99,650	16,685	116,335
LIABILITIES			
Accounts payable	7,576	182	7,758
Deferred revenue	5	-	5
Noncurrent liabilities:			
Due within one year	-	330	330
Due in more than one year	99,567	15,785	115,352
Total liabilities	107,148	16,297	123,445
NET ASSETS			
Invested in capital assets, net of related debt	(14,704)	-	(14,704)
Restricted for:			
Debt service	4,356	388	4,744
Other	1,339	-	1,339
Unrestricted	1,511	-	1,511
Total net assets (deficit)	$ (7,498)	$ 388	$ (7,110)

The notes to the financial statement are an integral part of this statement

City of Sacramento
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2005
(in thousands)

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense)
Business-type Activities:					
Sacramento Hotel Corporation					
Hotel operations	$ 35,510	$ 32,197	$ -	$ -	$ (3,313)
Sacramento Regional Arts Facilities Financing Authority					
Arts facilities financing	757	-	-	-	(757)
Total component units	$ 36,267	$ 32,197	$ -	$ -	$ (4,070)

The notes to the financial statement are an integral part of this statement

City of Sacramento
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Sacramento Hotel Corporation	Sacramento Regional Arts Facilities Financing Authority	Total Component Units
Change in net assets:			
Net revenue (expense)	$ (3,313)	$ (757)	$ (4,070)
General revenues:			
Investment earnings	566	739	1,305
Change in net assets	(2,747)	(18)	(2,765)
Net assets (deficit), beginning of year	(4,751)	406	(4,345)
Net assets (deficit), end of year	$ (7,498)	$ 388	$ (7,110)

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEFINITION OF REPORTING ENTITY

The City of Sacramento (City) was incorporated in 1849 under the laws of the State of California. Sacramento is a charter city and operates under a Council-Manager form of government. The City provides a full range of municipal services including police, fire, water, sewer, storm drainage, solid waste, construction and maintenance of streets and highways, planning and zoning, parks, recreation and cultural activities, low income and elderly housing and assistance, social services, redevelopment and general administrative support.

These basic financial statements present the financial status of the City and its component units, which are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Component unit financial statements may be obtained from the City's Department of Finance.

Blended component units

Although the following component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards are comprised of all City Council members or they are, in substance, part of the City's operations.

Sacramento Housing and Redevelopment Agency (SHRA) - a joint powers agency responsible for the development and implementation of housing, redevelopment and community service programs and activities for the City and County of Sacramento. The City Council serves as the governing board for all City activities reported by SHRA. The assets, liabilities and operations of the County of Sacramento in SHRA have not been eliminated from these financial statements because the County of Sacramento's involvement is primarily that of a passive sponsor which avails itself of federal funding sources.

Sacramento City Employees' Retirement System (SCERS) - a single employer pension plan sponsored and administered by the City for City employees, except public safety employees, hired before January 29, 1977 and public safety employees who retired with SCERS benefits before December 30, 1989. Under provisions of the City Charter, SCERS is managed by the Administration, Investment and Fiscal Management Board (the Board), consisting of the City Manager, City Director of Finance, City Treasurer and two residents of the City appointed by the City Council. Duties of the Board include the adoption of investment standards for SCERS, the establishment of contribution rates, the administration and investment of funds, the selection of investment advisors, the crediting of interest and any action relating to the fiscal management of SCERS.

Sacramento City Financing Authority (SCFA) - a joint exercise of powers entity created by the City and Sacramento City Redevelopment Agency for the purpose of acting as nominal lessor for City financing. The SCFA is administered by a governing board consisting of the members of the City Council.

Discretely presented component units

The following component units are reported in a separate column in the government-wide financial statements to emphasize their legal separation from the City.

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Sacramento Hotel Corporation (Hotel) – a nonprofit public benefit corporation established to facilitate the financing, development, construction, and operation of a full-service hotel in downtown Sacramento to support business expansion of the City's Convention Center. City Council appoints the board of directors, approves the annual budget, and approves amendments to the articles of incorporation and bylaws. Upon future dissolution, any remaining assets revert to the City. The Hotel is presented as a business-type activity in the component units column of the government-wide statements.

Sacramento Regional Arts Facilities Financing Authority (SRAFFA) - a joint powers agency between the City and County of Sacramento created for the purpose of financing the expansion of the theater complex located on H Street. The authority is governed by a board of five directors whose members are three designees of the City Council and two designees of the County Board of Supervisors. The members of the board serve at the pleasure of their respective legislative bodies and may be removed at will. Upon future dissolution, any remaining assets revert to the City and County of Sacramento in such manner as determined by the board. The SRAFFA is presented as a business-type activity in the component units column of the government-wide statements.

ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Implementation of GASB Statement No. 40

Effective July 1, 2004 the City implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The provisions of this new standard have been incorporated into Note 2.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are allocated to expenses and capital assets of governmental and business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The accounts of the City are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary trust fund financial statements. Agency funds, included in the fiduciary fund financial statements, are also reported using the accrual basis of accounting, however they are not reported using a measurement focus because only assets and liabilities are presented.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenue, special assessments, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The SHRA Capital Projects Fund accounts for SHRA financial resources to be used for the acquisition or construction of capital facilities, primarily low and moderate income housing projects.

The SHRA Special Revenue Fund accounts for the proceeds of specific SHRA federal, state and local revenue sources that are legally restricted for expenditures for specific purposes, including housing and community development.

The 1997 Lease Revenue Bond Fund accounts for the loan receivable, debt service activities and related transactions concerning the acquisition and lease back of Arco Arena.

The Transportation and Development Fund accounts for the receipts and disbursements of taxes, fees, and fines, which are used to construct and maintain streets, bridges, bikeways, traffic safety and community development.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major enterprise funds:

The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Storm Drainage Fund accounts for the operation and maintenance of the City's surface drainage system.

The Solid Waste Fund accounts for the collection and disposal of refuse throughout the City and for landfill closure.

The Community Center Fund accounts for the operation and maintenance of the City's Community Center, including the theater and exhibit halls.

The SHRA Enterprise Fund accounts for various U.S. Department of Housing and Urban Development subsidy programs which provide resources to house low-income households within the City and County of Sacramento.

Additionally, the City reports the following fund types:

Internal service funds account for the financing of fleet and risk management services to other departments on a cost reimbursement basis.

The Pension Trust Fund accounts for the assets held on behalf of the Sacramento City Employees' Retirement System (SCERS) for pension benefit payments to qualified employees.

The Investment Trust Fund accounts for the net assets held on behalf of investors in the City's investment pool who are not part of the City's financial reporting entity.

Agency funds account for assets held by the City as an agent for bonded assessment districts. In addition, SHRA uses an agency fund to account for assets held as an agent for a private organization.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Program revenues also include earnings on investments that are legally restricted for a specific program. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Data

The City Manager submits a proposed budget to the City Council no later than 60 days prior to the commencement of the fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget in June. The budget adoption resolution specifies that budgets will be controlled at the department level (e.g., police, fire, transportation, etc.) by fund.

Annual budgets are adopted for the General Fund, the SHRA and Transportation and Development major special revenue funds, and certain nonmajor special revenue funds. Annual budgets are also adopted for the enterprise and internal service funds, although they are not legally required. Multi-year project budgets are adopted for the General Fund, capital projects funds and certain special revenue funds where appropriations remain authorized for each project until closed, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders and executory contracts are treated as expenditures in the year of commitment. Budgets are modified throughout the year when the tax base changes, fees are modified, new revenue sources are identified, or programs are changed. The City Manager is authorized to administratively amend the budget during the year for transactions up to $100,000 without City Council approval. All other appropriation adjustments during the year require City Council approval. Significant appropriation adjustments were not required during the year ended June 30, 2005. Unencumbered annual budget appropriations lapse at fiscal year-end. Multi-year budget appropriations are automatically carried over into the next fiscal year.

Financial Statement Elements

Investments - City investments are recorded at fair value, except guaranteed investment contracts and real estate mortgages, which are recorded at cost. The estimated fair value of all investments is the quoted market price. Certain bond covenants require that interest earned on assessment district construction proceeds, which are reported in other governmental funds, be credited to reserve accounts, which are reported in Agency funds. Interest earned on all other cash and investments is credited to the fund which holds the investment.

Property Taxes - Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property taxes are levied annually by the Sacramento County Assessor on July 1 and become a lien on property on January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Sacramento County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5% of the delinquency must remain with the County as a reserve for Teeter Plan funding.

Receivables and payables – Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

Long-term loans receivable reported in the governmental fund statements are recorded with offsetting deferred revenue or reservation of fund balance because the resources are not available for appropriation. Long-term loans receivable reported in the proprietary fund statements, as well as long-term loans reported in the government-wide statements, are not offset by deferred revenue. Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate that they do not constitute resources available for appropriation.

Inventories and prepaid items - General fund inventories are recorded as expenditures when consumed rather than when purchased. These inventories are valued at average cost using the first-in, first-out method. Inventories in the proprietary funds are stated at the lower of average cost or market and consist of expendable materials and supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories and prepaid items, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate that they do not constitute resources available for appropriation.

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted Assets - Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets and balance sheets because their use is limited by applicable bond covenants. In addition, funds have been restricted for replacement of assets and tenant security deposits.

Capital Assets – Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded at the lower of actual historical cost or fair market value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	Primarily 15 to 70 years
Transmission and distribution systems	Primarily 15 to 100 years
Machinery, vehicles and equipment	Primarily 5 to 30 years
Roadway network	Primarily 20 to 70 years
Street light network	Primarily 40 to 50 years
Parks and park improvements	Primarily 30 years

It is the policy of the City to capitalize all land, buildings and improvements, equipment and infrastructure assets, except assets costing less than $20,000, unless a federal funding source was utilized. All capital assets financed by a federal funding source are capitalized, unless the cost of the asset was less than $5,000. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred by the City during the current fiscal year was $56,987,000.

The Crocker Art Museum's collection of works of art, held in trust by the City, has not been reported in these financial statements. The City has elected not to report the collection because it meets the three criteria for waiving capitalization: the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for the collection.

Compensated Absences - Employees accrue vacation, sick, holiday, and compensatory time off benefits. An employee may accumulate vacation time equal to the amount which can be earned in a two-year period. Sick pay vests and may be accumulated until retirement. An employee with sixty or more days of accumulated sick leave at the end of a calendar year may elect to receive a 25% payment of any unused sick leave earned in the previous year. The amount of sick leave paid is deducted from the employee's total accumulation. Upon termination or retirement, an employee may receive a cash payment of one-third of the vested accumulated sick leave.

All vacation pay is accrued when earned in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Deferred Revenue – Deferred revenue in governmental funds arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

Long-term Obligations – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains and losses on debt refunding are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method. Bonds payable are reported net of bond premium or discount and net of gains and losses on debt refunding. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Encumbrances - Encumbrance accounting is used during the year for budgetary control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather, a reservation of fund balance. The City honors contracts represented by year-end encumbrances and the appropriations carried over provide authority to complete these transactions in future years.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans by City management for future use of financial resources.

Fiscal Years - The fiscal year of the City begins on July 1 and ends on June 30. The fiscal year of two of the City's component units, SHRA and the Sacramento Hotel Corporation, begin on January 1 and end on December 31. The December 31, 2004 financial statements of these entities are included in this report. As a result of these differing fiscal years, advances made between the City and SHRA do not offset (see reconciliation in the Interfund Transactions footnote – Note 11).

Statement of Cash Flows - For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - **CASH AND INVESTMENTS**

The following is a summary of cash and investments at June 30, 2005 (in thousands):

	Government-wide Statement of Net Assets			
	Primary Government	Component Units	Statement of Fiduciary Net Assets	Total
Cash and investments	$ 781,272	$ 226	$ 569,946	$ 1,351,444
Restricted cash and investments	101,624	19,513	-	121,137
Total	$ 882,896	$ 19,739	$ 569,946	$ 1,472,581

Under the authority of the Sacramento City Charter, the Sacramento City Council, by Resolution 2005-405, has delegated its investment authority to the City Treasurer. The City Treasurer manages the City's investments in accordance with the City's Investment Policy, which was last reaffirmed by the City Council on May 31, 2005. The City's investment policy requires compliance with the California Government Code for investments of public funds. The City's investment policy also provides limits on rate anticipation, arbitrage and other swap investments.

SCERS pension trust fund investments are managed pursuant to investment standards adopted by the SCERS Administration, Investment and Fiscal Management Board. Investments of other trust funds are managed pursuant to City Council ordinances and authority granted by various boards and commissions.

A portion of SHRA investments are managed by the County of Sacramento. The County invests funds pursuant to the California Government Code.

The table below identifies the investment types that are authorized for public funds of the City by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Local Agency Bonds	5 years	None	None	
US Treasury Obligations	5 years	None	None	
US Agency Securities	5 years	None	None	
Bankers Acceptance	180 days	40%	30%	
Commercial Paper	270 days	25%	10%	A1/P1
Negotiable Certificates of Deposit	5 years	30%	None	
Repurchase Agreements	1 year	None	None	
Reverse Repurchase and Securities Lending agreements	92 days	20% of base value	None	
Medium Term Notes	5 years	30%	None	A
Mutual Funds as permitted by the government code	N/A	20%	10%	
Money Market Mutual Funds	N/A	20%	10%	
Collateralized Bank Deposits	5 years	None	None	
Mortgage Pass-through Securities	5 years	20%	None	AA
Time Deposits	5 years	None	None	
County Pooled Investment	N/A	None	None	
Local Agency Investment Fund	N/A	None	None	
Joint Powers Authority Pool	N/A	None	None	

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

The table above does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, or investments held by the SCERS pension trust fund or other trust funds.

Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Sacramento manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. The remaining maturity of the City's investments included in the table below is based on the stated maturity dates of the individual investments. Investments in common stock, or in debt securities with remaining maturities longer than five years, are held by the SCERS pension trust fund, other trust funds, or by bond trustees pursuant to debt agreements.

The City's investments by maturity as of June 30, 2005 are as follows (in thousands):

		Remaining Maturity in Years			
Investment Type	No Maturity	Under 1	1-5	Over 5	Fair Value
Asset backed securities	$ -	$ -	$ 8,508	$ -	$ 8,508
Bank notes	-	-	27,993	-	27,993
Banker's acceptances	-	5,693	-	-	5,693
Certificates of deposit	-	40,475	23,237	-	63,712
Commercial paper	-	87,909	-	-	87,909
Corporate bonds	-	80,467	121,396	11,236	213,099
County investment pool	-	35,715	-	-	35,715
Deposits	(6,096)	-	-	-	(6,096)
Equities	107,474	-	-	-	107,474
Exchange traded funds	29,242	-	-	-	29,242
Guaranteed investment contracts	-	-	22,654	18,899	41,553
Local Agency Investment Fund (LAIF)	-	25,631	-	-	25,631
Money market mutual fund	-	611	-	-	611
Mortgage loans	-	-	27,853	9,228	37,081
Municipal bonds	-	2,061	4,254	-	6,315
Mutual funds	-	9,624	-	-	9,624
Repurchase agreements	-	79,474	-	-	79,474
State & local government series securities	-	19,419	6,092	-	25,511
U.S. agencies	-	187,454	165,936	2,672	356,062
U.S. Treasury bills	-	7,198	-	-	7,198
U.S. Treasury bonds	-	-	-	269	269
U.S. Treasury notes	-	111,931	145,602	6,112	263,645
U.S. Treasury strips	-	86	86	-	172
	$ 130,620	$ 693,748	$ 553,611	$48,416	1,426,395
Timing difference for SHRA's participation in City investment pool					26,447
Total primary government					1,452,842

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

Investment Type	No Maturity	Remaining Maturity in Years: Under 1	1-5	Over 5	Fair Value
Component Unit - SRAFFA					
U.S. agencies	$ -	$ 1,062	$ -	$ -	$ 1,062
Money market mutual fund	-	99	-	-	99
	$ -	$ 1,161	$ -	$ -	1,161
Component Unit - Hotel					
Guaranteed investment contracts	$ -	$ -	$ -	$ 9,187	9,187
Deposits	1,103	-	-	-	1,103
Money market mutual fund	-	8,288	-	-	8,288
	$ 1,103	$ 8,288	$ -	$ 9,187	18,578
Total Cash and Investments					$ 1,472,581

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations
Investments in variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates (such as the last day of a month or calendar quarter) based on predefined mathematical formulas using benchmark indices (such as CPI or LIBOR). Variable rate securities with coupon multipliers are highly sensitive to interest rate risk. The fair value of such investments can reasonably be expected to be affected at each interest rate reset date.

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yield than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates.

The City's investments, including those held by bond trustees, that are highly sensitive to interest rate fluctuations are as follows (in thousands):

	Fair Value
Federal Home Loan Bank securities that have a maturity date of 4/11/2008 and are callable on 4/11/2006.	$ 27,076
Federal Home Loan Bank securities that have a maturity date of 11/29/2006 and are callable on 11/29/2005.	4,958
Federal Home Loan Bank securities that have a maturity date of 12/29/2006 and are callable semi-annually from 12/29/2005 to 6/29/2006.	9,763
Federal Home Loan Bank securities that have a maturity date of 8/17/2007 and are callable semi-annually from 8/17/2005 to 2/17/2007.	1,999
Federal Home Loan Bank securities with an initial interest rate of 4% to June 2006, and then the interest rate is reset quarterly based on three-month LIBOR plus 50 basis points. These securities have a maturity date of 6/30/2010 and are callable on 9/30/2005.	4,968
Housing and Urban Development securities that have a maturity date of 8/1/2015 and are callable semi-annually from 8/1/2005 to 2/1/2015.	2,006

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2005, the City's deposits and investments (in thousands), and corresponding credit ratings, are as follows:

Investment Type	S & P	Moody's	Fair Value
Asset backed securities	AAA	Aaa	$ 8,508
Bank notes	AA	Aa	16,996
	A	Aa	10,997
Banker's acceptance	A1	P1	5,693
Certificates of deposit	A1	P1	30,482
	A	P1	9,992
	AA	Aa	16,491
	A	Aa	6,747
Commercial paper	A1	P1	77,891
	AAA	Aaa	5,012
	A	Aa	5,006
Corporate bonds	AAA	AAA	54,142
	A	A	51,080
	A	AA	5,530
	A	Aa	28,479
	A1	P1	18,114
	AA	Aa	23,545
	AA	AA	13,248
	AAA	Aaa	8,750
	B	B	336
	BB	BAA	7,746
	BBB	BAA	2,129
County investment pool	not rated	not rated	35,715
Deposits	not rated	not rated	(6,096)
Equities (exempt from disclosure)	N/A	N/A	107,474
Exchange traded funds	not rated	not rated	29,242
Guaranteed investment contracts	not rated	not rated	41,553
Local Agency Investment Fund (LAIF)	not rated	not rated	25,631
Money market mutual funds	not rated	not rated	611
Mortgage loans	not rated	not rated	37,081
Municipal bonds	AAA	AAA	6,315
Mutual funds	not rated	not rated	334
	AAA	Aaa	9,290
Repurchase agreements	AAA	AAA	1,500
	A1	P1	2,000
	not rated	not rated	75,974
State & local government series securities	not rated	not rated	25,511
U.S. agencies	AAA	AAA	332,428
	A1	P1	1,496
	AAA	Aaa	19,530
	not rated	not rated	2,608
U.S. Treasury bills (exempt from disclosure)	N/A	N/A	7,198
U.S. Treasury bonds (exempt from disclosure)	N/A	N/A	269
U.S. Treasury notes (exempt from disclosure)	N/A	N/A	263,645
U.S. Treasury strips (exempt from disclosure)	N/A	N/A	172
			1,426,395

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

Investment Type	S & P	Moody's	Fair Value
Timing difference for SHRA's participation in City investment pool			26,447
Subtotal primary government			1,452,842
Component Unit – SRAFFA			
U. S. agencies	AAA	AAA	1,062
Money market mutual fund	AAA	Aaa	99
			1,161
Component Unit - Hotel			
Guaranteed investment contracts	not rated	not rated	9,187
Deposits	not rated	not rated	1,103
Money market mutual fund	AAA	AAA	8,288
			18,578
Total Cash and Investments			$ 1,472,581

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments at June 30, 2005, were U.S. agency securities issued by the Federal Home Loan Bank totaling $343,456,000.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments by reporting unit are as follows:

SRAFFA invested $1,062,000 in Federal Home Loan Mortgage Corporation securities.

The Hotel invested $9,187,000 in a guaranteed investment contract issued by Westdeutsche Landesbank Girozentrale, that matures on 1/1/2030, and invested $8,288,000 in money market mutual funds issued by the Bank of New York.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The City's investment policy has no additional provisions for limiting custodial credit risk for deposits. At June 30, 2005, the City had $43,000 of deposits that were uninsured and uncollateralized and thus subject to custodial credit risk. At December 31, 2004, the Hotel had $1,009,000 of deposits that were uninsured and uncollateralized and thus subject to custodial credit risk.

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy have provisions that limit custodial credit risk for investments. Investments loaned for securities lending are limited to 20% of the City's portfolio. Banker's acceptance securities are limited to 40% of the City's portfolio.

As of June 30, 2005, investments were held by the same broker-dealer (counterparty) that was used by the City to purchase the securities:

$220,201,842	Investments purchased with cash collateral from securities lending transactions
$ 5,692,481	Banker's acceptances: uninsured, unregistered and held by dealer bank

Securities Lending

The City engages in securities lending transactions, whereby the City has authorized its custodial bank to loan its securities to approved counterparties for collateral (cash or securities) with a simultaneous agreement to return the collateral for the same securities in the future. Such loans are short-term and the City retains the right to sell, without penalty, the original securities in which it has invested. The City's arrangement with the bank requires the bank to indemnify the City for failure of any counterparty to return the securities loaned. The City's investment policy permits securities loans up to 20% of the fair value of the City's portfolio.

Borrowers delivered collateral equal to at least 102% of the market value of the loaned securities. All loans are marked to market daily and if the value of the collateral falls below the minimum margin in aggregate for a borrower, the borrower must either increase the collateral or terminate the loans. There have been no losses as a result of a default. As of June 30, 2005, the average number of days that the loans were outstanding was 1 day and the weighted maturity of the collateral investments was 24 days. At year-end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City.

The securities loaned were U.S. government securities, corporate bonds, and equities. The types of collateral accepted are cash, U.S. government securities and letters of credit. The City cannot pledge or sell collateral securities without a borrower default.

The City lent securities totaling $215,343,000 and received cash collateral of $220,202,000. The cash collateral received was then invested as follows as of June 30, 2005 (in thousands):

Securities Lending Investments	Fair Value
Bank notes	$ 27,993
Certificates of deposit	28,735
Corporate bonds	87,874
Repurchase agreements	75,600
	$ 220,202

NOTE 2 - **CASH AND INVESTMENTS (Continued)**

City Sponsored Investment Pool

As part of the City's total cash and investments portfolio, the City Treasurer manages an investment pool, which includes both internal and external investors. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Treasurer is granted authority for managing the pool by City Charter Section 73 and City Council ordinances and resolutions. Quarterly, the City Treasurer reports investment activity and submits the investment policy to the Council for review and approval.

The fair value of investments is determined monthly. Participants' shares sold and redeemed are determined by the daily cash balance deposited in the pool (the value of its pool shares). The value of the pool shares is based upon amortized cost in day to day operations but is adjusted to the fair value at year-end. The investments are reported at fair value. The value of the shares is supported by the value of the underlying investments. External participants, including various joint powers agencies, comprise 3.8% of pool participation.

The following represents a condensed statement of net assets and changes in net assets for the City Sponsored Investment Pool as of June 30, 2005 (in thousands):

Statement of Net Assets:	
Net assets held in trust for all pool participants	$735,519
Equity of internal pool participants	$707,469
Equity of external pool participants	28,050
Total equity	$735,519
Statement of Changes in Net Assets:	
Net assets at July 1, 2004	$813,569
Net change in investments by pool participants	(78,050)
Net assets at June 30, 2005	$735,519

A summary of the investment classifications as of June 30, 2005 is as follows (in thousands):

	Fair Value	Principal Amount	Interest Rates	Maturity Dates
U.S. government and agency securities	$ 545,137	$ 548,277	0-4.37%	7/04-10/08
Commercial paper	62,037	61,998	2.72-3.49	7/04-11/04
Corporate bonds	137,540	137,897	2.0-5.94	11/04-4/07
Certificates of deposit	50,165	50,165	3.01-3.42	7/04-06/07
Repurchase agreements	54,931	54,952	3.14-3.57	7/04
Bank obligations	21,528	21,529	N/A	N/A
Banker's acceptance	5,692	5,691	3.17	7/05
Asset backed securities	4,995	4,995	3.44-3.46	10/06-1/07
Local Agency Investment Fund (LAIF)	7,533	7,533	2.85	N/A
Mutual funds	41	41	2.6	N/A
Deposits	(6,636)	(6,636)	N/A	N/A
Total cash and investments in City sponsored investment pool	$ 882,963	$ 886,442		

NOTE 2 - CASH AND INVESTMENTS (Continued)

Participation In External Investment Pools

The City's investment in the State of California's Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account (PMIA), is $7,532,856 at June 30, 2005, and SHRA's investment in LAIF is $18,098,000 at December 31, 2004. At June 30, 2005 a total of $60,503,473,770 was invested by all public agencies in PMIA, which is managed by the State Treasurer. Of that amount, 97.6% is invested in non-derivative financial products, and 2.4% is invested in derivative financial products. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by state statute. The value of the Pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the Pool.

SHRA's investment in the Sacramento County Treasurer Pool (County Pool) is $35,715,000 at December 31, 2004. The Sacramento County Treasurer manages investments of the County Pool and the County Treasury Oversight Committee is responsible for the regulatory oversight of its pool. The County invests funds pursuant to Sections 53601 et seq. and 53635 et seq. of the California Government Code. The value of the County Pool shares, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of SHRA's position in the County Pool.

NOTE 3 - RECEIVABLES

Receivables as of June 30, 2005, were as follows (in thousands):

	Taxes	Accounts	Loans	Inter-governmental	Interest	Total
Governmental activities						
General Fund	$ 19,871	$ 15,595	$ 1,498	$ -	$ 1,033	$ 37,997
SHRA Capital Projects	-	315	49,578	2,790	-	52,683
SHRA Special Revenue	1,484	358	49,960	3,561	-	55,363
1997 Lease Revenue Bond	-	-	72,290	-	952	73,242
Transportation and Development	-	646	-	1,172	181	1,999
Other governmental funds	6,079	10,373	2,222	44,728	819	64,221
Internal service funds	-	186	-	77	171	434
	$ 27,434	$ 27,473	$ 175,548	$ 52,328	$ 3,156	$ 285,939
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ 171,483	$ -	$ -	$ 171,483
Business-type activities						
Water Fund	$ -	$ 5,768	$ 3,256	$ 289	$ 357	$ 9,670
Sewer Fund	-	5,640	1,944	252	21	7,857
Storm Drainage Fund	-	4,907	5,830	198	282	11,217
Solid Waste Fund	-	7,160	-	376	-	7,536
Community Center Fund	1,799	148	50	-	114	2,111
SHRA Enterprise	-	871	125	2,640	-	3,636
Other enterprise funds	-	1,227	-	-	154	1,381
	$ 1,799	$ 25,721	$ 11,205	$ 3,755	$ 928	$ 43,408
Component Units						
Sacramento Hotel Corporation	$ -	$ 2,402	$ -	$ -	$ -	$ 2,402
Sacramento Regional Arts Facilities Financing Authority	-	-	14,855	-	-	14,855
	$ -	$ 2,402	$ 14,855	$ -	$ -	$ 17,257

NOTE 3 – **RECEIVABLES (Continued)**

Included in the above amounts are allowances for doubtful accounts of $3.4 million.

Under the terms of a SRAFFA facility lease agreement, California Music Theater is obligated to make base rental payments in an amount equal to the debt service requirements of the certificates of participation.

NOTE 4 - **CAPITAL ASSETS**

Summary

The following is a summary of capital assets as of June 30, 2005 (in thousands):

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units	Total
Capital assets not being depreciated					
Land and improvements	$ 117,982	$ 63,129	$ 181,111	$ 4,954	$ 186,065
Construction in progress	250,469	162,146	412,615	-	412,615
	368,451	225,275	593,726	4,954	598,680
Depreciable capital assets					
Buildings and improvements	428,396	526,010	954,406	72,121	1,026,527
Equipment	35,453	28,562	64,015	11,687	75,702
Vehicles	92,434	-	92,434	-	92,434
Transmission and distribution system	-	835,290	835,290	-	835,290
Roadway network	1,204,941	-	1,204,941	-	1,204,941
Street light network	121,751	-	121,751	-	121,751
Park improvements	32,222	-	32,222	-	32,222
	1,915,197	1,389,862	3,305,059	83,808	3,388,867
Less accumulated depreciation for:					
Buildings and improvements	(104,825)	(150,410)	(255,235)	(8,909)	(264,144)
Equipment	(30,216)	(12,550)	(42,766)	(4,177)	(46,943)
Vehicles	(51,906)	-	(51,906)	-	(51,906)
Transmission and distribution system	-	(162,605)	(162,605)	-	(162,605)
Roadway network	(648,039)	-	(648,039)	-	(648,039)
Street light network	(36,657)	-	(36,657)	-	(36,657)
Park improvements	(2,415)	-	(2,415)	-	(2,415)
	(874,058)	(325,565)	(1,199,623)	(13,086)	(1,212,709)
Depreciable capital assets, net	1,041,139	1,064,297	2,105,436	70,722	2,176,158
Total capital assets, net	$ 1,409,590	$1,289,572	$ 2,699,162	$ 75,676	$ 2,774,838

NOTE 4 - **CAPITAL ASSETS (Continued)**

Governmental Activities

Governmental capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 110,385	$ 10,598	$ (3,001)	$ 117,982
Construction in progress	284,772	118,590	(152,893)	250,469
	395,157	129,188	(155,894)	368,451
Depreciable capital assets				
Buildings and improvements	347,451	81,362	(417)	428,396
Equipment	32,971	2,822	(340)	35,453
Vehicles	87,681	8,995	(4,242)	92,434
Roadway network	1,177,166	45,932	(18,157)	1,204,941
Streetlight network	113,161	8,590	-	121,751
Park improvements	18,164	14,058	-	32,222
	1,776,594	161,759	(23,156)	1,915,197
Less accumulated deprecation for:				
Buildings and improvements	(94,305)	(10,634)	114	(104,825)
Equipment	(29,077)	(1,446)	307	(30,216)
Vehicles	(45,463)	(10,394)	3,951	(51,906)
Roadway network	(619,990)	(46,206)	18,157	(648,039)
Streetlight network	(34,242)	(2,415)	-	(36,657)
Park improvements	(1,576)	(839)	-	(2,415)
	(824,653)	(71,934)	22,529	(874,058)
Depreciable capital assets, net	951,941	89,825	(627)	1,041,139
Governmental activities capital assets, net	$ 1,347,098	$ 219,013	$ (156,521)	$ 1,409,590

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 1,692
Police	1,473
Fire	553
General services	3,383
Transportation	48,734
Convention, culture and leisure	1,756
Parks and recreation	2,635
Development services	108
Housing and redevelopment	283
Library	554
Nondepartmental	123
Internal service fund capital assets charged to functions based on usage	8,589
Total governmental activities depreciation expense	69,883
Accumulated depreciation transferred to governmental activities	2,051
Total increases to governmental activities accumulated depreciation	$ 71,934

NOTE 4 - **CAPITAL ASSETS (Continued)**

Business-type Activities

Business-type capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 61,768	$ 2,578	$ (1,217)	$ 63,129
Construction in progress	287,504	92,929	(218,287)	162,146
	349,272	95,507	(219,504)	225,275
Depreciable capital assets				
Buildings and improvements	514,599	19,456	(8,045)	526,010
Equipment	27,007	3,612	(2,057)	28,562
Vehicles	2,176	-	(2,176)	-
Transmission and distribution system	615,787	219,503	-	835,290
	1,159,569	242,571	(12,278)	1,389,862
Less accumulated depreciation for:				
Buildings and improvements	(137,406)	(13,628)	624	(150,410)
Equipment	(13,021)	(1,479)	1,950	(12,550)
Vehicles	(2,051)	-	2,051	-
Transmission and distribution system	(142,206)	(20,399)	-	(162,605)
	(294,684)	(35,506)	4,625	(325,565)
Depreciable capital assets, net	864,885	207,065	(7,653)	1,064,297
Business-type activities capital assets, net	$1,214,157	$ 302,572	$ (227,157)	$ 1,289,572

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	$ 9,916
Sewer	3,227
Storm drainage	9,424
Solid waste	1,269
Community center	2,573
Parking	1,815
Golf	607
Child development	52
Marina	378
Housing and redevelopment	6,245
Total business-type activities depreciation expense	$ 35,506

NOTE 4 - **CAPITAL ASSETS (Continued)**

Component Units

Component unit capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 4,954	$ -	$ -	$ 4,954
Depreciable capital assets				
Buildings and improvements	72,063	58	-	72,121
Equipment	11,591	96	-	11,687
	83,654	154	-	83,808
Less accumulated depreciation for:				
Buildings and improvements	(6,474)	(2,435)	-	(8,909)
Equipment	(3,012)	(1,165)	-	(4,177)
	(9,486)	(3,600)	-	(13,086)
			-	
Depreciable capital assets, net	74,168	(3,446)	-	70,722
Component unit activities capital assets, net	$ 79,122	$ (3,446)	$ -	$ 75,676

Depreciation expense was charged to functions as follows:

Component Units:	
Sacramento Hotel Corporation	$ 3,600
Total component units depreciation expense	$ 3,600

NOTE 5 - **PAYABLES**

Payables as of June 30, 2005, were as follows (in thousands):

	Vendors	Salaries and Benefits	Interest	Deposits	Total
Governmental activities					
General Fund	$ 13,663	$ 16,643	$ -	$ 298	$ 30,604
SHRA Capital Projects Fund	1,553	-	-	227	1,780
SHRA Special Revenue Fund	4,094	-	-	1,363	5,457
Transportation and Development Fund	1,957	-	-	710	2,667
Other governmental funds	16,996	159	4,247	954	22,356
Internal service funds	5,111	434	20	-	5,565
Total governmental activities	$ 43,374	$ 17,236	$ 4,267	$ 3,552	$ 68,429
Business-type activities					
Water Fund	$ 3,340	$ 942	$ 827	$ -	$ 5,109
Sewer Fund	2,265	432	124	-	2,821
Storm Drainage Fund	807	865	448	-	2,120
Solid Waste Fund	1,423	873	122	-	2,418
Community Center Fund	616	267	1,115	-	1,998
SHRA Enterprise Fund	4,817	-	-	1,073	5,890
Other enterprise funds	1,014	669	632	103	2,418
Total business-type activities	$ 14,282	$ 4,048	$ 3,268	$ 1,176	$ 22,774
Component units					
Sacramento Hotel Corporation	$ 4,664	$ -	$ 2,900	$ 12	$ 7,576
Sacramento Regional Arts Facilities Financing Authority	-	-	182	-	182
Total component units	$ 4,664	$ -	$ 3,082	$ 12	$ 7,758

NOTE 6 - OPERATING LEASES

City as Lessor

The City leases an office building in downtown Sacramento under a cancellable operating lease agreement. The building's original cost is $153.2 million. The carrying value and accumulated depreciation for the building at June 30, 2005 are $139.8 million and $13.4 million, respectively.

City as Lessee

The City is obligated under various operating leases for the use of land, buildings, office space and equipment. Lease expenditures, primarily for governmental funds, for the fiscal year ended June 30, 2005 were $5.5 million. Future minimum lease payments required by noncancellable lease agreements that have initial lease terms in excess of one year are as follows (in thousands):

Fiscal Year Ending June 30,	Balance
2006	$ 2,234
2007	1,164
2008	1,077
2009	825
2010	259
2011-2015	150
Total future minimum lease payments	$ 5,709

NOTE 7 – LONG-TERM LIABILITIES

Activity

The following is a summary of changes in long-term liabilities. Certain long-term liabilities provide financing to both governmental and business-type activities. Balances and activity are reported for the City's fiscal year ended June 30, 2005 and for the SHRA and Hotel component units' fiscal years ended December 31, 2004 (in thousands):

GOVERNMENTAL ACTIVITIES	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Revenue and other bonds:					
1991 Marks-Roos Revenue Bonds	$ 3,905	$ -	$ (1,220)	$ 2,685	$ 1,300
1993 Refunded Revenue Bonds, Series A	11,845	-	(451)	11,394	472
1993 Refunded Revenue Bonds, Series B	33,825	-	(1,300)	32,525	1,362
1995 Gas Tax Revenue Bonds, Series A	6,575	-	(1,165)	5,410	1,235
1996 Lighting and Landscaping Bonds	5,460	-	(305)	5,155	320
1997 Lease Revenue Bonds	72,710	-	(420)	72,290	615
1999 CFD No. 2 Revenue Bonds, Series A	2,740	-	(55)	2,685	60
1999 Capital Improvement Revenue Bonds	39,500	-	(1,155)	38,345	1,260
2000 Capital Improvement Revenue Bonds	15,810	-	(310)	15,500	325
2002 Capital Improvement Revenue Bonds	156,455	-	(5,775)	150,680	5,980
2002 Refunding Revenue Bonds	22,228	-	-	22,228	2,387
2003 Capital Improvement Revenue Bonds	68,470	-	(645)	67,825	1,060
Subtotal, revenue and other bonds	$ 439,523	$ -	$ (12,801)	$ 426,722	$ 16,376

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Activity (Continued)

GOVERNMENTAL ACTIVITIES (Continued)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Tax allocation bonds:					
1993 Downtown TARBS	$ 16,936	$ -	$ (663)	$ 16,273	$ 620
1998 Downtown TAB	10,960	-	(630)	10,330	765
1998 Downtown TABS – Refunding	50,135	-	(815)	49,320	1,290
2000 Downtown TAB – Refunding	11,690	-	(3,410)	8,280	3,565
2003 Alkali Flat TAB	7,705	-	(295)	7,410	295
2003 Del Paso Heights Tab	6,066	-	-	6,066	-
2003 Mather TAB (Tax)	5,758	-	(110)	5,648	83
2003 Mather TAB (TE)	23,669	-	(483)	23,186	442
2003 McClellan TAB (Tax)	2,587	-	(50)	2,537	37
2003 McClellan TAB (TE)	3,961	-	(82)	3,879	73
2003 North Sacramento TAB	5,175	-	(75)	5,100	60
Subtotal, tax allocation bonds	144,642	-	(6,613)	138,029	7,230
Certificates of participation:					
Other Lease Financing	820	-	(496)	324	219
Notes payable:					
City:					
State Department of Boating & Waterways	1,101	-	(53)	1,048	55
NN CFD 9701 Drainage Facilities	523	27	-	550	550
SHRA:					
City B 92-MC-06-0003A	70	-	(70)	-	-
City B-95-MC-06-0003A	2,300	-	(1,100)	1,200	1,200
City B-97-MC-06-0003	1,920	-	(100)	1,820	100
City B-97-MC-06-0003	2,955	-	(85)	2,870	85
3% CHFA Deferred Note	2,000	-	-	2,000	-
County B-00-UC-06-0005	550	-	(90)	460	100
County B-01-UC-06-0005	250	-	-	250	24
CHFA – Phoenix Park	1,000	-	-	1,000	-
County of Sacramento – Auburn Blvd.	300	-	(150)	150	-
Mather CIEDB	227	972	(86)	1,113	89
McClellan CIEDB	808	1,800	(129)	2,479	134
CHFA – Phoenix Park	1,500	-	-	1,500	-
Subtotal, notes payable	$ 15,504	$ 2,799	$ (1,863)	$ 16,440	$ 2,337

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Activity (Continued)

GOVERNMENTAL ACTIVITIES (Continued)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Capital lease obligations:					
Plaza building	$ 1,093	$ -	$ (186)	$ 907	$ 203
IBM equipment	1,363	-	(258)	1,105	265
Parking meters	-	2,100	(1,563)	537	119
Subtotal, capital lease obligations	2,456	2,100	(2,007)	2,549	587
Less deferred amounts:					
For issuance discounts	(1,355)	-	46	(1,309)	(47)
For issuance premiums	2,573	-	(283)	2,290	283
Gain/loss on refunding	(786)	-	98	(688)	(98)
Subtotal deferred amounts	432	-	(139)	293	138
Subtotal, debt governmental activities	603,377	4,899	(23,919)	584,357	26,887
Other long-term liabilities:					
Accrued claims	59,496	23,298	(15,205)	67,589	22,040
Compensated absences	34,614	29,611	(25,898)	38,327	4,884
Financing plan fee credits:					
North Natomas	27,328	10,046	(7,884)	29,490	8,794
Jacinto Creek	1,865	38	(417)	1,486	300
Subtotal, other long-term liabilities	123,303	62,993	(49,404)	136,892	36,018
Total, governmental activities	$ 726,680	$ 67,892	$ (73,323)	$ 721,249	$ 62,905

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Activity (Continued)

BUSINESS-TYPE ACTIVITIES	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Revenue and other bonds:					
1993 Refunded Revenue Bonds, Series A	$ 90,795	$ -	$ (3,454)	$ 87,341	$ 3,618
1993 Refunded Revenue Bonds, Series B	36,945	-	(1,420)	35,525	1,488
1999 Capital Improvement Revenue Bonds	26,675	-	(510)	26,165	530
2000 Capital Improvement Revenue Bonds	22,785	-	(450)	22,335	470
2001A Capital Improvement Revenue Bonds	200,840	-	(3,145)	197,695	3,334
2002 Refunding Revenue Bonds	15,612	-	-	15,612	1,687
Phoenix Park II Demand Bonds	-	23,919	-	23,919	-
Subtotal, revenue and other bonds	393,652	23,919	(8,979)	408,592	11,127
Certificates of participation:					
Delivery Order #14	43	-	(28)	15	15
Subtotal, certificates of participation	43	-	(28)	15	15
Notes payable:					
1985 Marina Phase I	1,803	-	(26)	1,777	27
1985 Marina Phase II	2,702	-	(35)	2,667	37
1985 Marina Phase III	1,345	-	(65)	1,280	68
1985 Marina Phase IV	861	-	(38)	823	39
State Water Resources Control Board	1,923	-	(116)	1,807	119
State Water Resources Control Board	33,270	-	(1,635)	31,635	1,671
State Water Resources Control Board	4,432	-	(227)	4,205	233
State Water Resources Control Board	2,244	-	(106)	2,138	109
State Water Resources Control Board	5,401	-	(257)	5,144	263
California Department of Education	160	200	-	360	60
San Jose/Broadway	612	-	(19)	593	20
Larchmont/Wildflower	160	-	(25)	135	28
Riverview – October 1988	1,353	28	-	1,381	-
Norwood – May 1992	1,980	46	-	2,026	-
Savings Association Mortgage Company	311	-	(8)	303	10
Shasta Partnership (HUD)	2,753	77	-	2,830	-
Phoenix Park I – Citibank	-	14,839	-	14,839	-
Phoenix Park I – Union Safe Deposit Bank	-	1,000	-	1,000	-
Bank of America Note	6,000	-	(6,000)	-	-
Subtotal, notes payable	67,310	16,190	(8,557)	74,943	2,684
Capital lease obligations:					
Recycle Containers #1	-	580	(54)	526	111
Recycle Containers #2	-	620	-	620	116
Subtotal, capital lease obligations	-	1,200	(54)	1,146	227
Less deferred amounts:					
For issuance discounts	(3,501)	-	151	(3,350)	(151)
For issuance premiums	598	-	(75)	523	75
Gain/loss on refunding	(9,664)	-	1,340	(8,324)	(1,338)
Subtotal, deferred amounts	(12,567)	-	1,416	(11,151)	(1,414)
Subtotal, debt business-type activities	448,438	41,309	(16,202)	473,545	12,639
Other long-term liabilities:					
Compensated absences	7,171	5,424	(5,693)	6,902	393
Liability for landfill closure	15,950	-	(760)	15,190	760
Subtotal, other long-term liabilities	23,121	5,424	(6,453)	22,092	1,153
Total business-type activities	$ 471,559	$ 46,733	$ (22,655)	$ 495,637	$ 13,792

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Activity (Continued)

COMPONENT UNITS	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
1999 Hotel Senior Revenue Bonds, Series A	$ 92,800	$ -	$ -	$ 92,800	$ -
1999 Hotel Revenue Bonds, Series B	10,770	-	-	10,770	-
Sacramento Regional Arts, Series 2002 COPS	16,580	-	(325)	16,255	335
Subtotal, component units	120,150	-	(325)	119,825	335
Less deferred amounts:					
For issuance discounts	(929)	-	35	(894)	(5)
For unaccreted interest	(4,011)	762	-	(3,249)	-
Subtotal, deferred amounts	(4,940)	762	35	(4,143)	(5)
Total component units	115,210	762	(290)	115,682	330
Total, long-term liabilities	$1,313,449	$ 115,387	$ (96,268)	$1,332,568	$ 77,027

The following is a list of long-term debt issues outstanding at June 30, 2005, including the amount of original debt issuance and a description of the issue.

Revenue and Other Bonds

$148,655,000 1991 Marks-Roos Revenue Bonds
Authorized and issued November 1991, for the purpose of financing the acquisition, construction and installation of facilities and equipment for public safety, golf, community center and other authorized uses. In September 1993, $116,265,000 of these bonds was refunded through the issuance of the 1993 Revenue Bonds Series A. In November 1994, $20,735,000 of the remaining bonds was retired. The balance is due in annual installments of $850,000 to $1,385,000 through November 2006, bearing interest rates of 6.25% to 6.8%.

$130,425,000 1993 Refunded Revenue Bonds, Series A
Authorized and issued September 1993, due in annual installments of $2,186,000 to $8,875,000 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1986 Public Facilities Certificates of Participation and a portion of the 1991 Marks-Roos Revenue Bonds.

$95,480,000 1993 Refunded Revenue Bonds, Series B
Authorized and issued September 1993, due in annual installments of $1,634,000 to $6,070,000 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1989 Public Facilities Certificates of Participation.

$14,165,000 1995 Gas Tax Revenue Bonds, Series A
Authorized and issued May 1995, due in annual installments of $890,000 to $1,475,000 through December 2008, bearing interest rates of 4.7% to 6.75%, for the purpose of financing the acquisition and construction of the 1995 Street Improvement Project.

$7,290,000 1996 Lighting and Landscaping Improvement Bonds
Authorized and issued October 1996, due in annual installments of $235,000 to $565,000 through fiscal year 2017, bearing interest rates of 4.5% to 5.50%, for the purpose of financing park and lighting maintenance and capital improvements. The debt service on the bonds is payable from special assessments to be levied and collected from property owners.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Revenue and other Bonds (Continued)

$73,725,000	1997 Lease Revenue Bonds Authorized and issued July 1997, due in annual installments of $125,000 to $420,000 through July 2007, at which time there will be a mandatory refunding. The bonds were issued to finance the acquisition and lease back of Arco Arena. The bonds were issued as variable rate bonds and a ten-year interest rate hedge has been purchased to mitigate the risk of interest rate fluctuations to a fixed rate of 6.845%. The debt service on the bonds is funded from lease revenue on Arco Arena.
$2,910,000	1999 North Natomas Community Facilities District (CFD) No. 2, Revenue Bonds Series A Authorized and issued January 1999, due in annual installments of $35,000 to $255,000 through September 2023, bearing interest rates of 4.8% to 6.25%, for the purpose of financing capital improvements of the North Natomas CFD of benefit to City property.
$92,800,000	1999 Hotel Senior Revenue Bonds, Series A Authorized and issued April 1999, due in annual installments of $200,000 to $13,300,000 through January 1, 2030, bearing interest rate of 6.25%, to finance the construction of a convention center hotel.
$4,097,827	1999 Hotel Subordinate Revenue Bonds, Series B Authorized and issued April 1999, due in annual installments of $1,770,000 to $1,800,000 commencing January 1, 2006 through January 1, 2011, with an accretion rate of 11%, to finance the construction of a convention center hotel.
$71,180,000	1999 Capital Improvement Revenue Bonds Authorized and issued December 1999, due in annual installments of $930,000 to $2,635,000 through December 2029, bearing interest rates of 4.1% to 5.875%, for the purpose of financing the construction of a south area corporation yard and various activities in the Del Paso Heights, Oak Park, North Sacramento, and Richards redevelopment project areas.
$40,745,000	2000 Capital Improvement Revenue Bonds Authorized and issued July 2000, due in annual installments of $2,288,000 to $2,816,000 through June 1, 2030, bearing interest rates of 4.05% to 5.60%. Net proceeds of $40,377,000 were utilized for the purpose of financing the acquisition and construction of an administrative headquarters for the Fire and Police Departments and for construction of an H Street parking facility.
$206,780,000	2001A Capital Improvement Revenue Bonds Authorized and issued April 2001, due in annual installments of $6,967,000 to $13,441,000 through December 1, 2032, bearing interest rates of 4.00% of 5.50%. Net proceeds of $204,416,000 were utilized for the purpose of financing the acquisition and construction of improvements to the City's municipal water system and the construction of improvements to the City's Haggin Oaks golf course facility.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Revenue and other Bonds (Continued)

$46,265,000 2002 Refunding Revenue Bonds
Authorized and issued October 31, 2002, with principal and interest due in annual installments of $5,779,850 to $5,800,381 through July 1, 2012, bearing interest at rates of 2.75% to 5.0%. Net proceeds of $47,987,823 were utilized for the purpose of establishing an irrevocable escrow to refund $27,950,000 principal amount of the City's 1991 Refunding Certificates of Participation (1987 Public Facilities Projects) and $20,430,000 principal amount of the City's 1991 Refunding Certificates of Participation (Light Rail Transit Project).

$160,475,000 2002 Revenue Bonds, Series A
Authorized and issued July 2, 2002, due in annual principal and interest installments of $4,450,942 to $7,173,620 through December 1, 2032, bearing interest rates of 3.0% to 5.375%. Net proceeds of $162,349,682 were utilized for the purpose of financing certain capital projects within the City of Sacramento and to make a loan to the Redevelopment Agency of Sacramento for certain redevelopment projects within the City of Sacramento.

$68,470,000 2003 Capital Improvement Revenue Bonds
Authorized and issued September 30, 2003, due in annual principal and interest installments of $3,986,775 to $5,608,790 through December 1, 2033, bearing interest rates of 2.0% to 5.0%. Net proceeds of $67,840,527 were utilized for the purpose of financing the 911 Call Center and certain other capital projects within the City of Sacramento.

$23,919,000 SHRA Variable Rate Demand Bonds
Authorized and issued in June and October, 2004, maturing on October 1, 2036, and is subject to prior redemption of the bonds on demand by the bondholders. Interest rates are determined weekly, payments of which are due monthly. The bonds are fully secured by a letter of credit. Proceeds were utilized for the purpose of rehabilitation and construction of the Phoenix Park II, L.P. affordable housing complex.

Tax Allocation Bonds

$121,809,469 SHRA Tax Allocation Bonds
To finance redevelopment projects, various bond issues ranging from $1,760,000 to $55,315,000 with maturities through 2029, bearing interest rates of 3.5% to 9%, payable from future property tax increment in redevelopment project areas.

$54,920,588 SHRA Tax Allocation Bonds
Authorized and Issued in December 2003 to finance redevelopment projects, various bond issues ranging from $2,586,950 to $23,669,250 with maturities through 2033, bearing interest rates of 2.0% to 6.25%, payable from future property tax increment in redevelopment project areas.

Certificates of Participation

$16,580,000 Sacramento Regional Arts Facilities 2002 Series Certificates of Participation
Authorized and issued in August 2002, due in annual principal and interest installments of $754,484 to $1,062,600 through September, 2032, bearing interest rates of 2.0% to 5.0%. Net proceeds of $16,427,972 were utilized for the purpose of financing and refinancing the acquisition, renovation and construction of the H Street Theatre facilities. The debt service on the bonds is funded from lease revenue on the theatre facilities.

$12,809,317 Other Lease Financings
Authorized and issued March 1991 to August 1997, due in annual installments of $213,000 to $2,384,000 through August 2007, bearing interest rates of 5.5% to 7.25%, for the purpose of obtaining equipment for street lighting, the Sacramento Zoo, police, radio communication system, fire and other city departments.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Notes Payable

$2,220,465	1985 Sacramento Marina Note Payable, Phase I Authorized July 1985, issued November 1985, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of $20,104 to $82,228 through August 2030, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
$3,229,441	1985 Sacramento Marina Note Payable, Phase II Authorized July 1985, issued September 1987, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of $26,914 to $149,713 through August 2037, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
$1,828,769	1985 Sacramento Marina Note Payable, Phase III Authorized July 1985, issued March 1988, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of $49,622 to $119,643 through August 2018, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
$1,116,859	1985 Sacramento Marina Note Payable, Phase IV Authorized July 1985, issued February 1989, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of $29,036 to $73,152 through August 2019, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
$1,380,000	1997 State Department of Boating and Waterways Note Payable Authorized January 1997, issued May 1999, due in annual installments of $88,809 to $98,168 through 2018, for the purpose of financing a visitor dock at the Old Sacramento Waterfront.
$2,619,435	State Water Resources Control Board Note Payable Authorized July 1998, issued September 1998, due in annual installments of $165,652 through March 2018, bearing an interest rate of 2.6%, for the purpose of financing the City's reservoir rehabilitation project.
$37,015,548	State Water Resources Control Board Note Payable Authorized March 1999, issued beginning July 1999, due in annual installments of $2,372,652 through November 2020, bearing an interest rate of 2.2%, for the purpose of financing various wastewater projects.
$5,177,477	State Water Resources Control Board Note Payable Authorized March 2001, issued July 2001, due in annual installments of $342,051 through September 2019, bearing an interest rate of 2.6%, for the purpose of financing the construction of underground storage and pumping facilities.
$2,603,365	State Water Resources Control Board Note Payable Authorized June 2001, issued beginning May 2002, due in annual installments of $148,569 through May 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines. In fiscal year 2003 there was an additional draw of $249,716.
$5,672,013	State Water Resources Control Board Note Payable Authorized February 2002, issued beginning February 2002, due in annual installments of $397,125 through February 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines.
$6,019,458	SHRA Mortgage Notes Payable To finance public housing projects, various notes with maturities through 2044, bearing interest rates of 3% to 8.38%, collateralized by land and buildings.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Notes Payable (Continued)

$21,745,919	SHRA Notes Payable To finance acquisition of land, rehabilitation of public housing, and economic development loans, various notes with maturities through 2021, bearing interest rates of 3.25% to 9%, primarily collateralized by and payable from future federal Community Development Block Grant and Housing and Urban Development entitlements.
$2,950,000	SHRA Notes Payable To finance acquisition of land, rehabilitation of public housing, and economic development loans, various notes with maturities through 2016, bearing interest rates of 3.0% to 5%, primarily collateralized by and payable from future federal Community Development Block Grant and Housing and Urban Development entitlements.
$1,500,000	SHRA Notes Payable California Housing Finance Agency note payable authorized and issued January 2003 to finance acquisition of properties in the Phoenix Park project, accruing annual interest at 3.0% on funds drawn, payable in full January 2013.
$3,807,000	SHRA Notes Payable California Infrastructure and Economic Development Bank loans authorized and issued January 2002, due in annual installments through December 2033, with interest payable semi-annually at 3.52% for the purpose of financing public development facilities at the former Mather and McClellan air force bases.
$14,839,000	SHRA Notes Payable Phoenix Park I, L.P. Construction Note Payable to Citibank issued in 2004. The note bears variable interest at 2.25% plus one month LIBOR rate during the rehabilitation phase. Interest only payments are made on a monthly basis. The entire principal balance on the construction note, including any accrued interest, is immediately due and payable on the conversion date, as defined in the promissory note agreement. On the conversion date, the construction note shall become a permanent loan, less the conversion paydown amount. The note is secured by a deed of trust.
$1,000,000	SHRA Notes Payable Phoenix Park I, L.P. Note Payable to Union Safe Deposit Bank (Bank). The note is noninterest bearing and is forgivable at the sole discretion of the Bank 57 years after February 1, 2004 provided that the Partnership complies with all of its obligation under the Affordable Housing Program (AHP) Agreement. There are no scheduled payments of interest and principal. The note is secured by a deed of trust.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Notes Payable (Continued)

$200,000 California Department of Education Note Payable
To finance the construction of temporary classrooms at Two Rivers School with maturities of $20,000 per year through 2012. The note bears no interest.

$200,000 California Department of Education Note Payable
To finance the construction of temporary classrooms at Sequoia School with maturities of $20,000 per year through 2014. The note bears no interest.

$549,775 Reclamation District Number 1000 Note Payable
The North Natomas CFD Number 97-01 entered into a note payable to the Reclamation District No. 1000 to finance the construction of drainage improvements for the North Natomas Comprehensive Drainage Plan. Interest accrues at an annual rate of 1.5%. It is anticipated that principal and interest will be paid in full in 2006.

Capital Lease Obligations

The City has entered into several long-term leases to finance the acquisition of real estate and equipment. The leases qualify as capital leases for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, Accounting for Leases, and have been recorded at the present value of the future minimum lease payments. As of June 30, 2005, future minimum lease payments to be made by the City's General and Solid Waste Funds are as follows (in thousands):

Years Ending June 30,	Governmental Activities	Business-Type Activities	Total
2006	$ 712	$ 261	$ 973
2007	712	261	973
2008	713	261	974
2009	690	261	951
2010	-	198	198
Total minimum lease payments	2,827	1,242	4,069
Less amounts representing interest	(278)	(96)	(374)
Net present value of minimum lease payments	$ 2,549	$ 1,146	$ 3,695

The following is a schedule of leased property under capital leases by major classes at June 30, 2005 (in thousands):

	Governmental Activities	Business-Type Activities	Total
Land	$ 335	$ -	$ 335
Building	2,270	-	2,270
Equipment	2,010	1,192	3,202
Less: accumulated depreciation	(2,020)	(119)	(2,139)
Total	$ 2,595	$ 1,073	$ 3,668

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Other Long-term Liabilities

Accrued claims – Estimated liabilities of the City's workers' compensation, auto, and general liability self-insurance programs administered through the Risk Management Internal Service Fund.

Compensated absences – Due to employees for earned but unused compensated absence accounts, including vacation, sick, and compensated time off leave balances. Compensated absences are generally liquidated by the City's General Fund, internal service funds and enterprise funds in each fiscal year.

Liability for landfill closure – Estimated post-closure maintenance and monitoring costs for the City's 28^{th} Street landfill site.

Financing plan fee credits – Issued to developers as consideration for infrastructure and other capital improvements constructed on behalf of the City within the scope of the North Natomas and Jacinto Creek financing plans. Credits are redeemable from or against future financing plan impact fees assessed within the geographic boundaries of the plan.

Future Debt Service Requirements

The annual debt service requirements for City long-term debt outstanding as of June 30, 2005, and SHRA and Hotel component unit long-term debt outstanding as of December 31, 2004, are as follows (in thousands):

Annual debt service requirements of governmental activities to maturity are as follows:

	Revenue Bonds		Tax Allocation Bonds		Certificates of Participation	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 16,376	$ 21,862	$ 7,230	$ 6,420	$ 219	$ 17
2007	87,971	21,195	7,774	6,175	105	3
2008	15,057	15,516	8,505	5,902	-	-
2009	15,691	14,870	8,816	5,584	-	-
2010	14,786	14,215	9,174	5,231	-	-
2011 - 2015	78,791	60,744	45,477	26,938	-	-
2016 - 2020	78,515	41,057	16,282	34,985	-	-
2021 - 2025	43,855	24,729	11,284	9,506	-	-
2026 - 2030	44,580	14,010	11,407	7,509	-	-
2031 - 2035	31,100	2,804	12,080	2,166	-	-
Subtotals	426,722	231,002	138,029	110,416	324	20
Less: Issuance discounts	(734)	-	(575)	-	-	-
Plus: Issuance premiums	2,290	-	-	-	-	-
Less: Net loss on refunding	(688)	-	-	-	-	-
Totals	$427,590	$ 231,002	$137,454	$ 110,416	$ 324	$ 20

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Future Debt Service Requirements (Continued)

Fiscal Year Ending June 30,	Notes Payable Principal	Notes Payable Interest	Capital Leases Principal	Capital Leases Interest
2006	$ 2,337	$ 802	$ 587	$ 125
2007	608	686	630	82
2008	686	665	661	52
2009	709	635	671	19
2010	2,618	1,112	-	-
2011 - 2015	5,856	3,282	-	-
2016 - 2020	3,026	1,243	-	-
2021 - 2025	600	60	-	-
Totals	$ 16,440	$ 8,485	$ 2,549	$ 278

Annual debt service requirements of business-type activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest	Notes Payable Principal	Notes Payable Interest
2006	$ 11,127	$ 20,852	$ 15	$ -	$ 2,684	$ 1,409
2007	11,624	20,349	-	-	17,570	1,342
2008	12,143	19,779	-	-	2,804	1,272
2009	12,739	19,169	-	-	2,874	1,201
2010	13,349	18,275	-	-	2,922	1,129
2011 - 2015	72,944	77,190	-	-	15,633	4,483
2016 - 2020	86,337	54,878	-	-	18,524	3,158
2021 - 2025	62,045	33,468	-	-	3,642	716
2026 - 2030	65,765	18,209	-	-	846	475
2031 - 2035	36,600	2,805	-	-	1,054	266
2036 - 2040	23,919	-	-	-	534	44
2041 - 2045	-	-	-	-	3,334	3,000
2046 - 2050	-	-	-	-	1,522	2,278
2051 - 2055	-	-	-	-	-	-
2056 - 2060	-	-	-	-	-	-
2061 - 2065	-	-	-	-	1,000	-
Subtotals	$408,592	$284,974	$ 15	$ -	$ 74,943	$ 20,773
Less: Issuance discounts	(3,350)	-	-	-	-	-
Plus: Issuance premiums	523	-	-	-	-	-
Less: Net loss on refunding	(8,324)	-	-	-	-	-
Totals	$397,441	$284,974	$ 15	$ -	$ 74,943	$ 20,773

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Future Debt Service Requirements (Continued)

Fiscal Year Ending June 30,	Capital Leases Principal	Capital Leases Interest
2006	$ 227	$ 34
2007	234	27
2008	242	19
2009	249	12
2010	194	4
Totals	$ 1,146	$ 96

Annual debt service requirements of component unit activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2006	$ -	$ 5,800	$ 335	$ 724
2007	1,970	5,800	340	717
2008	2,200	5,788	345	709
2009	2,300	5,763	355	700
2010	2,500	5,731	365	689
2011 - 2015	10,200	27,706	2,045	3,210
2016 - 2020	15,000	24,844	2,505	2,749
2021 - 2025	23,900	18,881	3,115	2,109
2026 - 2030	32,200	10,444	3,965	1,236
2031 - 2035	13,300	831	2,885	221
Subtotals	103,570	111,588	16,255	13,064
Less: Unaccreted interest	(3,246)	-	-	-
Less: Issuance discounts	(755)	-	(139)	-
Totals	$ 99,566	$ 111,588	$ 16,116	$ 13,064

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Interest rate swap

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in July 1997, the Sacramento City Financing Authority (the "Authority") entered into an interest rate swap in connection with its $73,725,000 1997 Lease Revenue Bonds (Arco Arena Acquisition) variable interest rate bonds (the "Bonds"). The intention of the swap was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 6.845% through the end of the swap agreement's term. As of June 30, 2005, the amount of outstanding Bonds was $72,290,000. The interest and principal payments on the Bonds are insured by a third party bond insurer.

Terms. The Bonds mature on July 15, 2027 and are subject to mandatory tender on July 18, 2007. The Bonds carry an interest rate equal to 3-month London Interbank Offered Rate ("LIBOR") plus 0.25% (total rate not to exceed 14%), payable quarterly, until July 18, 2007. The swap agreement terminates on July 18, 2007, and has a notional amount as of June 30, 2005 of $72,290,000. The notional amount of the swap and the par amount of the Bonds each decline according to the same schedule through 2007. The swap was entered at the same time the Bonds were issued (July 1997). Under the swap, the Authority pays the counterparty a fixed payment of 6.845% and receives a variable payment computed as LIBOR plus 0.25% (total rate not to exceed 14%). The Authority's payments to the counterparty under the swap agreement are insured by the third party bond insurer.

Fair value. Because interest rates have declined since the execution of the swap, the swap had a negative fair value of $4,135,874 as of June 30, 2005. Because the coupons on the Bonds adjust as LIBOR adjusts, the Bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2005, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated "AA-" by Fitch Ratings, "Aa3" by Moody's Investors Service, and "A+" by Standard & Poor's as of June 30, 2005. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, the swap agreement provides the counterparty, the Authority, the bond insurer for the Bonds, and a third-party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement within 30 days of such a downgrade.

Basis risk. The swap agreement provides that the payment received by the Authority shall be at LIBOR plus 0.25% (total rate not to exceed 14%), the equivalent of the interest rate on the Bonds. This arrangement mitigates the Authority's exposure to basis risk.

Termination risk. The Authority may terminate the swap if the counterparty fails to perform under the terms of the contract. The Authority also may terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the Authority and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard & Poor's. The counterparty may terminate the swap if the Authority fails to perform under the terms of the contract, and the bond insurer fails to perform under the terms of the contract. The counterparty also may terminate the swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, and; 2) the Authority falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard & Poor's. If the swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 7 – **LONG-TERM LIABILITIES (Continued)**

Interest rate swap (Continued)

Swap payments and associated debt. Using rates as of June 30, 2005, debt service requirements of the variable rate Bonds and net swap payments, assuming current interest rates remain the same through the July 2007 termination date of the swap and mandatory tender date on the Bonds, were as follows (in thousands):

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 615	$ 2,472	$ 2,444	$ 5,531
2007	745	2,448	2,420	5,613
2008	70,930	723	717	72,370
Total	$ 72,290	$ 5,643	$ 5,581	$ 83,514

Beyond the termination date of the swap and mandatory tender date on the bonds in July 2007, the interest rates on the bonds will vary.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the U.S. Department of Treasury at least every five years. During the current year, the City performed calculations of excess investment earnings on various bonds and at June 30, 2005, determined the estimated liability to be zero.

Special Assessment Debt

Total matured and unmatured bonds outstanding related to special assessment and special tax districts are $142 million at June 30, 2005. The City acts as an agent for the property owners in collecting special assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, when appropriate. The City is not liable for repayment of the special district bonds, and accordingly, they are not reflected in the accompanying basic financial statements. Cash held on deposit and corresponding amounts payable for the districts are reported in the Assessment Districts and Community Facility District Act Agency Funds.

Conduit Debt

Total bonds outstanding related to special facility revenue bonds is $183 million at June 30, 2005. These bonds were issued to provide administrative and service facilities for four non-profit organizations and for offices leased to the State of California Department of General Services (State). The bonds issued are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from loan or lease agreements between the City and the non-profit organizations or the State. The City is not liable for repayment of the special facility revenue bonds, and accordingly, they are not reflected in the accompanying basic financial statements.

Mortgage Insured Bonds

The City and the County of Sacramento have issued single family and multifamily mortgage bonds totaling $137 million. The bonds were issued to provide funds for the purchase of home mortgages in the Sacramento County area. SHRA was appointed by the City and County of Sacramento to administer the mortgage program. The mortgage bonds do not constitute a liability of SHRA or the City and are not reflected in the accompanying basic financial statements.

NOTE 8 – **EMPLOYEE RETIREMENT PLANS**

Defined Benefit Plan Descriptions

The City of Sacramento provides defined benefit retirement benefits through the California Public Employees' Retirement System (PERS) and the Sacramento City Employees' Retirement System (SCERS). PERS is an agent multiple-employer public employee defined benefit pension plan. SCERS is a single-employer defined benefit pension plan.

PERS

All full-time and certain part-time City employees hired after January 28, 1977 and all SHRA and City safety employees, regardless of date of hire, are eligible to participate in PERS. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from the PERS Executive Office at 400 Q Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

SCERS

All full-time, non-safety employees hired before January 29, 1977, excluding SHRA, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing the City of Sacramento Department of Finance, 915 I Street, 4th Floor, Sacramento, CA 95814. The following is a summary of significant accounting policies:

> **Basis of Accounting** – SCERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.
>
> **Method Used to Value Investments** – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

NOTE 8 – **EMPLOYEE RETIREMENT PLANS (Continued)**

Funding Policy

Participants are required to contribute a percentage of their annual covered salary, as follows:

PERS - Miscellaneous and SHRA	7%
PERS - Safety	9
SCERS - (varies with entry age)	3 – 10

The City makes the following participant contributions on their behalf and for their account (percent of annual covered payroll):

PERS - Certain miscellaneous employees, excluding SHRA	3%
PERS - SHRA miscellaneous	2.5 – 3.5
PERS - Safety	9

The City is required to contribute at actuarially determined rates. Rates for the fiscal year ended June 30, 2005 were as follows (percent of annual covered payroll):

PERS - Miscellaneous	9.006%
PERS - SHRA	6.511
PERS - Safety	22.620
SCERS	0.000

PERS contribution requirements are established and may be amended by PERS. SCERS contribution requirements are established by City Code.

Annual Pension Cost

PERS (excluding SHRA)

For the fiscal year ended June 30, 2005, the City's annual PERS pension cost of $29.1 million was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.75% to 14.20%. Both (a) and (b) included an inflation component of 3.50% and an annual production growth of .25%. 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 three-year period. Unfunded actuarial accrued liabilities and excess assets as of June 30, 2003 are being amortized, using the level percentage of payroll method, over a closed period that depends on the plan's date of entry into PERS. The remaining amortization period at June 30, 2003 was 26 years for the safety employees' plan and 19 years for the miscellaneous employees' plan. Subsequent plan amendments are amortized as a level percentage of projected payrolls over a closed 20-year period. Annual gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year.

NOTE 8 – **EMPLOYEE RETIREMENT PLANS (Continued)**

Annual Pension Cost (Continued)

PERS (SHRA)

For the year ended December 31, 2004, SHRA's annual pension cost of $0.5 million was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2002 and 2001 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% attributable to merit or seniority increases that vary by length of service and (c) no post-retirement increases. Both (a) and (b) include an inflation component of 3.0% and an annual production growth of 0.25%. The actuarial value of the plan's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period depending on the size of investment gains and/or losses. The amortization period on the unfunded actuarial liability is expected to be 20 years and is a closed period. The amortization period is a level percent of payroll.

SCERS

The City had no required contributions or actual pension cost for the fiscal year ended June 30, 2005. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) 5% projected annual salary increases, (c) an inflation component of 3%, and (d) 4% per year social security wage base adjustments. SCERS assets in excess of liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The fair value of plan assets is used as the actuarial value of assets. The remaining amortization period at June 30, 2005 was 7 years.

Three-Year Trend Information

PERS (excluding SHRA)

Fiscal Year	Annual Pension Cost (APC) (in millions)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	$ 3.0	100%	$ 0
June 30, 2004	8.8	100	0
June 30, 2005	29.1	100	0

PERS (SHRA)

Fiscal Year	Annual Pension Cost (APC) (in millions)	Percentage of APC Contributed	Net Pension Obligation
Dec. 31, 2002	$ 0.0	100%	$ 0
Dec. 31, 2003	0.0	100	0
Dec. 31, 2004	0.5	100	0

SCERS

Fiscal Year	Annual Pension Cost (APC) (in millions)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	$ 0.0	100%	$ 0
June 30, 2004	0.0	100	0
June 30, 2005	0.0	100	0

NOTE 8 – **EMPLOYEE RETIREMENT PLANS (Continued)**

Defined Contribution Plan

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

NOTE 9 – **POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS**

The City provides health and dental care insurance benefits for all retirees, their survivors and dependents.

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

For SHRA retirees, the combined health and dental care benefit consists of a range of $360 to $507 per month per participant, depending on the participant's job classification at the time of retirement. SHRA covers 100% of the participant's health and dental benefits under these plans.

City benefits are defined by labor agreements and resolutions approved by the City Council. SHRA benefits are defined by labor agreements approved by the City Council and County Board of Supervisors. Benefit costs are recorded on a pay-as-you-go basis as nondepartmental expenditures. For the most recent fiscal year, the City and SHRA expended approximately $5.8 million and $851,000, respectively, for post-employment health and dental care insurance benefits. The City and SHRA provided coverage for approximately 2,198 and 180 retirees and/or families, respectively.

NOTE 10 – **FUND EQUITY AND EXCESS OF EXPENDITURES OVER APPROPRIATION**

The beginning fund balance of the General Fund and the beginning net assets of governmental activities and business-type activities have been restated to reflect the reclassification of the Advanced Life Support (ALS) program from an enterprise fund to a Fire department program in the General Fund.

The Grants Fund, a special revenue fund, had a deficit fund balance of $5.2 million as of June 30, 2005. The Capital Grants Fund, a capital projects fund, had a deficit fund balance of $24.6 million, as of June 30, 2005. The deficits represent grant expenditures unreimbursed by granting agencies within the 60 day period of availability for which corresponding revenues have not been recorded. The deficits will be recovered upon receipt of grantor reimbursements.

The Marina Fund, an enterprise fund, had accumulated deficit net assets of $743,000 which will be recovered through future operating income. The Risk Management Fund, an internal service fund, had accumulated deficit net assets of $8.9 million as a result of premium deficiency. This will be recovered through future premium increases.

For the fiscal year ended June 30, 2005, expenditures exceeded appropriations in the Zoo program in the Culture and Leisure special revenue fund by $151,000, partially offset by positive variances of $30,000. These excess expenditures were funded by $171,000 of revenues in excess of budgeted revenues.

NOTE 11 – INTERFUND TRANSACTIONS

Transfers

Transfers report the nonreciprocal contribution of resources from one fund to another. The following is a summary of transfers for the fiscal year ended June 30, 2005 (in thousands):

	Description	Transfers In	Transfers Out	Net Transfers
Governmental Activities:				
General Fund	In-lieu transfers	$ 18,153	$ -	$ 18,153
General Fund	Debt service	-	17,966	(17,966)
General Fund	Program support	3,020	2,690	330
Transportation and Development	Program support	-	1,746	(1,746)
Transportation and Development	Debt service	-	1,417	(1,417)
SHRA Special Revenue Fund	Program support	1,289	2,219	(930)
SHRA Capital Projects Fund	Program support	11,336	2,944	8,392
Nonmajor governmental funds	Debt service	21,214	2,400	18,814
Nonmajor governmental funds	Transfer for capital assets	-	11,386	(11,386)
Nonmajor governmental funds	Program support	2,532	10,440	(7,908)
Internal service funds	Debt service	470	-	470
Internal service funds	Program support	192	2,603	(2,411)
Internal service funds	Transfer for capital assets	125	1,150	(1,025)
Adjustment for transfer of SHRA capital assets from governmental funds to enterprise funds	Transfer of capital assets	-	11,170	(11,170)
Total governmental activities		58,331	68,131	(9,800)
Business type Activities:				
Water	In-lieu transfers	-	4,897	(4,897)
Water	Transfer for capital assets	5,648	13	5,635
Water	Program support	113	-	113
Sewer	In-lieu transfers	-	1,659	(1,659)
Sewer	Transfer for capital assets	2,222	40	2,182
Sewer	Program support	87	-	87
Solid Waste	In-lieu transfers	-	4,452	(4,452)
Solid Waste	Transfer for capital assets	-	41	(41)
Solid Waste	Program support	981	-	981
Storm Drainage	In-lieu transfers	-	3,408	(3,408)
Storm Drainage	Transfer for capital assets	3,517	30	3,487
Storm Drainage	Program support	156	-	156
Community Center	In-lieu transfers	-	1,346	(1,346)
Community Center	Program support	1,961	194	1,767
SHRA Enterprise Fund	Program support	2,676	609	2,067
Nonmajor enterprise funds	In-lieu transfers	-	2,393	(2,393)
Nonmajor enterprise funds	Program support	251	-	251
Nonmajor enterprise funds	Debt service	100	-	100
Adjustment for transfer of SHRA capital assets from governmental funds to enterprise funds	Transfer of capital assets	11,170	-	11,170
Total business-type activities		28,882	19,082	9,800
Total government-wide statements		$ 87,213	$ 87,213	$ -

NOTE 11 - **INTERFUND TRANSACTIONS (Continued)**

Transfers (continued)

The $2.676 million transfers into the SHRA Enterprise Fund includes a $1.15 million transfer of capital assets which was reported in the SHRA Enterprise statement of revenues, expenses, and changes in fund net assets as a capital contribution. A corresponding $1.15 million transfer out was reported in the SHRA Internal Service Fund statement of revenues, expenses, and changes in fund net assets.

Interfund Balances

Interfund balances report lending transactions between funds. The following is a summary of interfund balances as of June 30, 2005 (in thousands):

	Interfund Receivable	Interfund Payable	Interfund Balance
Governmental Activities:			
General Fund	$ 400	$ 613	$ (213)
SHRA Capital Projects	10,810	2,730	8,080
SHRA Special Revenue	15,298	1,731	13,567
Nonmajor governmental funds	1,118	28,821	(27,703)
Internal Service Funds	42,496	1,000	41,496
Total governmental activities	70,122	34,895	35,227
Business type Activities:			
Solid Waste	-	2,007	(2,007)
Community Center	-	9,144	(9,144)
SHRA Enterprise Fund	19,755	37,280	(17,525)
Nonmajor enterprise funds	200	6,581	(6,381)
Total business type activities	19,955	55,012	(35,057)
Total	$ 90,077	$ 89,907	$ 170

The balance of $170 thousand is the result of timing differences in recording a loan payment between SHRA and the City of Sacramento. The timing differences arise because SHRA has a December 31 year end and the City has a June 30 year end.

$15.3 million receivable in SHRA's Special Revenue fund, $10.8 million receivable in SHRA's Capital Projects fund, and $19.8 million receivable in SHRA's Enterprise Fund is money loaned for development projects.

$42.5 million was loaned by the City's Internal Service funds to cover short-term operating deficits (approximately $26.5 million) and to assist in development of community resources (approximately $16 million).

$28.8 million was borrowed by various nonmajor governmental funds for short term loans (approximately $24 million), and development of community resources (approximately $4.8 million).

$1.1 million was loaned by various nonmajor governmental funds to assist in community redevelopment.

$53 million was borrowed by various enterprise funds to develop community housing and recreation resources. $2 million was borrowed to cover a short-term operating deficit.

NOTE 12 - RISK MANAGEMENT

City

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Earthquake damage is not included in the commercial coverage carried by the City.

The Risk Management Internal Service Fund self-insures each workers' compensation claim and provides a self-insured retention for each general or automobile liability claim. The self-insured retention for general and automobile liability claims is $2 million plus claims that exceed commercial insurance coverage. Commercial insurance for general and automobile liability claims provides $10 million in coverage for amounts over the City's $2 million self-insured retention. Liabilities are estimated based on recommendations from an independent actuarial evaluation. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For the fiscal year ended June 30, 2005, the expected rate of return was 3 percent. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

All funds of the City participate in the program and make payments to the Risk Management Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. At June 30, 2005, the Fund had deficit net assets of $8.9 million. The deficit net assets balance is expected to be repaid through future contributions from City participants.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the Risk Management Internal Service Fund's claims liability for the past two fiscal years is summarized as follows (in thousands):

	2005	2004
Accrued claims, July 1	$ 58,850	$ 53,011
Incurred claims and adjustment expenses	23,165	22,699
Claim payments	(15,044)	(16,860)
Accrued claims, June 30	$ 66,971	$ 58,850

SHRA

SHRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and illnesses of employees; wrongful employment practice; and natural disasters. SHRA uses its internal service fund to account for and finance its risks of loss. Under these programs SHRA is self-insured for the following risks up to the maximum amount per claim as follows: general liability $100,000, automotive liability $3,000, property $100,000, and employment practice liability $100,000. SHRA is self-insured for those automobile claims, which consist of employee injuries and SHRA vehicle damage. Additional auto insurance is purchased for liability coverage up to $5,000,000.

NOTE 12 - **RISK MANAGEMENT (Continued)**

For general liability claims, SHRA is one of seven public housing authorities of the California Housing Authority Risk Management Agency (CHARMA), formed as a means of providing general liability coverage (including errors and omissions), purchasing excess insurance on a collective basis and providing other coverage as approved by the board of directors. SHRA covers the first $100,000 per claim, and the risk pool covers up to $250,000 per claim. The purpose of CHARMA is to spread the adverse effects of losses among the member agencies. Should actual losses among participants be greater than anticipated, SHRA will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, SHRA will be refunded its pro rata share of the excess. Excess commercial insurance is provided through the pool up to an additional $5,000,000 for each occurrence. Settled claims have not exceeded this commercial coverage in any of the past ten years.

Workers' compensation and employer's liability insurance is provided through California Housing Workers' Compensation Authority (CHWCA), a risk sharing pool. For employer's liability claims, the pool covers up to $250,000 per accident. Excess liability insurance is provided through the risk pool up to an additional $2,000,000 for each accident. For workers' compensation claims, the pool covers SHRA's claims within the statutory limit. Should actual losses among participants be greater than anticipated, SHRA will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, SHRA will be refunded its pro rata share of the excess.

All SHRA operating funds participate in its self-insurance programs and make payments to the internal service fund based on historical cost and/or actuarial estimates of amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims. The total historical cost/actuarially determined claims liability at December 31, 2004 is $618,000 consisting of $25,000 for automotive liability, $260,000 for general liability, $100,000 for property damage liability, and $233,000 for unallocated loss adjustment expenses. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 30, and include claims incurred but not reported as of December 31, 2004. Changes in claims liability during the fiscal years ended December 31, 2004 and 2003 were as follows (in thousands):

	2004	2003
Accrued claims, January 1	$ 646	$ 614
Claims and changes in estimates	133	159
Claims payments	(161)	(127)
Accrued claims, December 31	$ 618	$ 646

NOTE 13 - **COMMITMENTS AND CONTINGENCIES**

Commitment of Enterprise Fund Revenues

Revenues of the Sewer and Storm Drainage Enterprise Funds are pledged to the payment of principal and interest on the State Water Resources Control Board Notes Payable.

NOTE 13 - **COMMITMENTS AND CONTINGENCIES (Continued)**

Construction and Other Commitments

The City, excluding SHRA, has commitments of $75.7 million for contracts awarded but not completed at June 30, 2005. This amount consists of $12.8 million in the General Fund, $12.3 million in the special revenue funds, $40.4 million in the capital projects funds and $10.2 million in proprietary funds. The major contracts outstanding are for the 911 Dispatch and Training Facility project, the Main Avenue bridge replacement, the Bruceville Road widening project, and other public infrastructure improvement projects.

As of December 31, 2004, SHRA had outstanding unencumbered contractual obligations, primarily for housing project site improvements and structural rehabilitation, of $11.5 million.

Contingent Liabilities

The City participates in a number of federal, state and local grant programs, the principal of which are Community Development Block Grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City does not expect such amounts, if any, to materially affect the financial statements of the City. Receipt of these grant revenues is not assured in the future.

Litigation

Various claims and lawsuits are pending against the City. Although the outcome of these claims and lawsuits is not presently determinable, management, after consultation with legal counsel, is of the opinion that these matters will not have a material adverse effect on the financial condition of the City.

Closure and Postclosure Care Cost

State and federal laws and regulations required the City to place a final cover on its 28th Street landfill site, after it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site after closure. The $15.2 million reported as liability for landfill closure at June 30, 2005, represents the City's estimate of these costs for the next twenty years. The estimate is based on anticipated post closure costs, which are allocated by year using inflation values. Actual costs may be higher due to inflation above the estimated levels, changes in technology, or changes in laws or regulations. The City has received state approval to fund this liability, along with cost increases due to inflation, with future Solid Waste Fund user charges.

Toxics Mitigation

The City has identified underground toxic contamination on land owned by the City. Future costs to clean up and monitor the site have been estimated as $1.1 million through the year 2023. These costs will be funded with annual appropriations as expenditures are incurred.

NOTE 14 - JOINTLY GOVERNED AND RELATED ORGANIZATIONS

Sacramento Public Library Authority

The City is a participant with the County of Sacramento in the Sacramento Public Library Authority (Library), a joint powers agency created to provide library services to the residents of the City and the County. The Library is governed by a nine-member board made up of five County appointees and four City appointees. It is a component unit of the County. The joint powers agreement dated August 31, 1993 remains in effect unless terminated by mutual agreement of the City and County, or at the end of a fiscal year after a one-year notice is given by either the City or County. Upon termination, the City would receive equipment and resources proportionate to its contribution to the Library. The City and County are committed to fund annual contributions to operate library branches in their respective jurisdictions. City and County contributions for the fiscal year ended June 30, 2005, were \$8.0 and \$13.9 million, respectively, which were sufficient to fund Library operations for the year. During the year, the City also contributed the use of its library facilities to the Library. Financial statements for the Library can be obtained from the City's Department of Finance.

Related Organizations

The City's officials are responsible for appointing members to the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City Council confirms board appointments made by the Mayor to: The Local Agency Formation Commission, the Regional Transit Board, the Sacramento Area Council of Governments, the Sacramento Area Commerce & Trade Organization, the Sacramento Area Flood Control Agency, the Sacramento Employment and Training Agency, the Sacramento Metropolitan Air Quality Management District, the Sacramento Metropolitan Cable Television Commission, the Sacramento Regional County Sanitation District, the Sacramento Regional County Solid Waste Authority, the Sacramento Regional Fire/EMS Communication Center, the Sacramento Transportation Authority, the Water Advisory Commission, and the Regional Fire and Rescue Training Authority.

The City's financial support to these organizations during the year ended June 30, 2005 included \$650,000 to support paratransit services through the Sacramento Area Council of Governments, and \$2,293,000 for operations and facility support to the Sacramento Regional Fire/EMS Communication Center.

The City also received financial support from these related organizations during the year ended June 30, 2005, including \$18,212,000 in the Transportation and Development Fund from the Sacramento Transportation Authority, \$2,082,000 of cable television revenues in the General Fund from the Sacramento Metropolitan Cable Television Commission, and \$1,102,000 of revenue in the General Fund from the Sacramento Regional County Solid Waste Authority.

In addition, the City administers customer billing and collections on behalf of the Sacramento Regional County Sanitation District. Accounts receivable and an offsetting liability of \$1,144,000 for customer accounts is recorded in the City's Sewer Enterprise Fund as of June 30, 2005.

NOTE 15 – SUBSEQUENT EVENTS

On July 12, 2005, the Sacramento City Financing Authority, a component unit of the City of Sacramento, issued \$173 million of revenue bonds to refund a portion of the outstanding 1999, 2000, 2001 and 2002 capital improvement revenue bonds.

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APPENDIX C

THE MASTER LEASED PROPERTY

General. The assets that will comprise the Master Leased Property as of the date of issuance of the Bonds will consist of the assets identified generally below (including those identified in bold, which constitute the 2006 Leased Property), all of which are located in the City. The Base Rental Payments are payable by the City under the Master Project Lease for the right to use and possession of the Master Leased Property. Pursuant to the Master Project Lease, upon delivery of the Bonds, the City will be obligated to pay 2006 Base Rental Payments in the aggregate principal components of $151,135,000, as well as the 1999, 2001, 2002, 2003 and 2005 Base Rental Payments in the aggregate principal components of $1,460,000, $133,675,000, $90,545,000, $66,765,000 and $143,730,000, respectively, for the right of use and possession of the Master Leased Property identified below. The Master Project Lease may be amended in the future to add additional property to the Master Leased Property to enable the City to secure the payment of additional bonds of the Authority payable from additional Base Rental Payments under the Master Project Lease. The City may also add, delete or substitute assets pursuant to the Master Project Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Project Lease – Master Leased Property" herein.

Essential Assets	Estimated Value (Historical)	Non-Essential Assets	Estimated Value (Historical)
Sac River-West Treatment Plant	**$68,000,000**	Memorial Auditorium	$44,750,965
City Hall	**54,801,000**	Cavanaugh Golf Course	26,144,167
Pioneer Reservoir	40,000,000	Seymour Park	23,140,029
Granite Regional Park	33,533,136	Del Paso Park	22,699,660
Sump #2	30,000,000	Fremont Park	21,170,160
Lot G	25,849,342	Reichmuth Park	19,028,100
Hansen Ranch Park Site	22,849,398	Southside Park	17,681,600
24th Street Corporation Yard	22,347,461	Coloma Community Center	14,011,268
Lot H	21,620,450	Cesar E. Chavez Park	13,531,350
Lot C	21,325,928	Garcia Bend Park	9,743,171
Florin Reservoir	20,118,000	Glenbrook Park	9,738,810
Meadowview Corp Yard	15,606,083	Muir Park	9,120,900
35th Corp Yard	14,645,176	**O'Neil Field**	**8,440,800**
Historic City Hall	**11,328,315**	Curtis Park	7,350,009
Lot R	11,255,947	Oki Park	7,074,630
Sequoia Pacific (Warehouse)	3,070,558	North Laguna Park	7,039,995
Rooney Police Station	3,046,527	Tahoe Park	6,956,880
Animal Control Shelter	2,827,397	Hall Park	5,243,120
Sequoia Pacific (Forensic ID Lab)	2,182,158	**South Natomas Library**	**4,874,679**
Sac River Underground Reservoir	2,000,000	Northgate Park	4,587,315
Fire Station #16	1,251,576	Orchard Park Site	4,587,315
Fire Station #10	1,049,832	Washington Park	4,381,760
Fire Station #19	871,373	**South Natomas Community Center**	**4,105,200**
Fire Station #7	859,421	Cabrillo Park	2,196,910
Fire Station #1	809,120	Lawrence Park	1,830,758
Fire Station #17	808,147	Brockway Park	1,332,560
Fire Station #14	807,545	Stanford Park	1,085,779
Fire Station #15	510,142	Grant Park	1,085,779
Rooney Police Garage	170,837	Shore Park	811,931
Total	$433,544,869		$303,745,600

Total Asset Value Comprising the Leased Property:	$737,290,469
Total Principal Amount of the bonds secured by Base Rental Payments:	$587,310,000

In accordance with the Master Project Lease, the estimated value of the Master Leased Property identified above is determined by the City as of the date such property is originally included in the Master Lease Property.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the 2006 Indenture, the Master Site Lease, the Fifth Amendment to Master Site Lease, the Master Project Lease and the Sixth Amendment to Master Project Lease. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the 2006 Indenture, the Master Site Lease, the Fifth Amendment to Master Site Lease, the Master Project Lease and the Sixth Amendment to Master Project Lease, respectively, and copies of each of these documents are on file and available for inspection at the corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California 94108.

DEFINITIONS

The following are definitions of certain terms used in this Summary of Principal Legal Documents. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in either the Master Project Lease or the 2006 Indenture, on file and available for inspection as referenced above.

"2006 Additional Rental Payments" means the payments payable by the City as Additional Rental Payments pursuant to the Sixth Amendment to Master Project Lease, which constitute Additional Rental Payments under the Master Project Lease.

"2006 Base Rental Payments" means the payments payable by the City as Base Rental Payments pursuant to the Sixth Amendment to Master Project Lease, which constitute Base Rental Payments under the Master Project Lease.

"2006 Bond Insurer" means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company, or any successor thereto or assignee thereof, as issuer of the Bond Insurance Policy.

"2006 Bonds" means, collectively, the Series A Bonds and the Series B Bonds authorized, executed, authenticated and delivered in accordance with the 2006 Indenture.

"2006 CRCIP Projects" means those additional municipal projects for the citizens of the City constituting a variety of capital improvements identified within the City's Community Reinvestment Capital Improvement Program, and other municipal improvements (or any other municipal project for the citizens of the City substituted therefor), which constitute Additional Improvements under the Master Project Lease.

"2006 Indenture" means the Indenture, dated as of June 1, 2006, between the Authority and the Trustee executed pursuant to the Act, as originally executed and as it may from time to time be amended or supplemented by all 2006 Supplemental Indentures executed pursuant to the provisions therein.

"2006 Project" means the 2006 Site, together with the improvements located thereon, that have been leased by the Authority to the City pursuant to the Sixth Amendment to Master Project Lease, which constitutes an Additional Project under the Master Project Lease.

"2006 Series A Base Rental Payments" means the payments related to the Series A Bonds payable by the City as Base Rental Payments pursuant to the Master Project Lease.

"2006 Series B Base Rental Payments" means the payments related to the Series B Bonds payable by the City as Base Rental Payments pursuant to the Master Project Lease.

"2006 Site" means those certain parcels of real property that have been leased to the Authority by the City pursuant to the Fifth Amendment to Master Site Lease, as more particularly described and incorporated therein and made a part thereof, which constitutes an Additional Site under the Master Site Lease and the Master Project Lease.

"2006 Supplemental Indenture" means any indenture then in full force and effect that has been made and entered into by the Authority and the Trustee, amendatory of or supplemental thereto; but only to the extent that such 2006 Supplemental Indenture is specifically authorized under the 2006 Indenture.

"2002A Bonds" means the Authority's 2002 Revenue Bonds, Series A (City Hall and Redevelopment Projects).

"Accountant's Report" means a report signed by an Independent Certified Public Accountant.

"Act" means the Joint Exercise of Powers Act, constituting Article 1, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the Government Code of the State and the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the Government Code of the State), and all laws amendatory thereof or supplemental thereto.

"Additional Bonds" means any additional revenue bonds issued by the Authority, the proceeds of which will be used as the source of funds for financing and refinancing the acquisition and construction of Additional Improvements.

"Additional Bonds Reserve Requirement" means, as of any date of determination by the City so long as the 2002A Bonds remain outstanding, an amount equal to the least of (i) ten percent (10%) of the initial offering price to the public of the Additional Bonds related to the Base Rental Payments paid by the City pursuant to the related amendment to the Master Project Lease (as determined under the Code), (ii) the maximum annual Base Rental Payments related to such Additional Bonds payable in the current or any future one-year period ending on each June 30 or (iii) 125% of the average annual Base Rental Payments related to such Additional Bonds payable in the current and all future one-year periods ending on each June 30, but in any such case not greater than the maximum amount permitted to be held in the related reserve account for such Additional Bonds under the Code.

"Additional Improvements" means any additional improvements for the City or any additional loan obligations of the Agency so that the Agency can undertake redevelopment activities for the benefit of the City that will be financed pursuant to an amendment to the Master Project Lease.

"Additional Project" means any Additional Site, together with the improvements located thereon, that will be leased by the Authority to the City pursuant to an amendment to the Master Project Lease.

"Additional Rental Payments" means the Additional Rental Payments (including the 1999 Additional Rental Payments, the 2001 Additional Rental Payments, the 2002A Additional Rental Payments, the 2003 Additional Rental Payments, the 2005 Additional Rental Payments and the 2006 Additional Rental Payments) due under the Master Project Lease.

"Additional Site" means any additional real property that is leased by the City to the Authority under an amendment to the Master Site Lease.

"Agency" means the Redevelopment Agency of the City of Sacramento, a redevelopment agency duly organized and existing under and by virtue of the laws of the State.

"Amortized Value" means an amount equal to the principal amount of the Series A Bonds to be redeemed pursuant to the extraordinary redemption provisions of the 2006 Indenture multiplied by the price of such Series A Bonds expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date of the date of redemption, a maturity date of the stated maturity date, the optional redemption provisions, if any, of such Series A Bonds and a yield equal to such Series A Bonds' original reoffering yield set forth in the Official Statement.

"Authority" means the Sacramento City Financing Authority, a joint exercise of powers authority between the City and the Agency duly organized and existing under and by virtue of the laws of the State.

"Authority Bonds" means all revenue bonds issued by the Authority that are payable on a parity from Base Rental Payments.

"Base Rental Payments" means the scheduled Base Rental Payments (including the 1999 Base Rental Payments, the 2001 Base Rental Payments, the 2002A Base Rental Payments, the 2003 Base Rental Payments, the 2005 Base Rental Payments and the 2006 Base Rental Payments) due under the Master Project Lease.

"Board of Directors" means the Board of Directors of the Authority.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the 2006 Bond Insurer that guarantees the payment of the principal of and interest on the Insured Bonds.

"Bond Insurer" means, collectively, the 2006 Bond Insurer and any municipal bond insurance company providing insurance for any Additional Bonds.

"Bonds" means the 1999 Bonds, the 2001 Bonds, the 2002A Bonds, the 2003 Bonds, the 2005 Bonds, the 2006 Bonds and all Additional Bonds.

"Business Day" means any day (other than a Saturday, a Sunday or a legal holiday) on which banks in New York, New York, and in Los Angeles and San Francisco, California, are open for business and on which the Trustee is open for business at its Principal Corporate Trust Office.

"Certificate of the Authority" means an instrument in writing executed by the Chair or the Treasurer, or by any other officer of the Authority duly authorized by the Board of Directors for that purpose, and attested by the Secretary or the Assistant Secretary of the Authority.

"Chair" means the Chair of the Authority.

"City" means the City of Sacramento, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State.

"Code" means the Internal Revenue Code of 1986 and all regulations of the United States Department of the Treasury issued thereunder from time to time to the extent that such regulations are, at the time, applicable and in effect, and reference to any particular section of the Code shall include reference to all successor sections of the Code.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series B Bond, the US Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series B Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series B Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a Series B Bond, (1) the average of the Reference Treasury Deal Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Continuing Disclosure Certificate" means the continuing disclosure certificate executed by the City relating to the 2006 Bonds, dated the date of the original issuance of the 2006 Bonds.

"Costs of Issuance" means all costs directly or indirectly payable by or reimbursable to the Authority or the City related to the execution and delivery of the Program Obligation and the 2006 Indenture and the authorization and sale of the 2006 Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of the Rating Agencies and costs to provide information required by the Rating Agencies, filing, recording and title insurance fees, charges and fees of the Trustee, legal fees and expenses, fees and expenses of consultants and professionals, costs of the premiums for the Bond Insurance Policy, charges and fees incidental to the acquisition of rights under the Program Obligation by the Authority and the preparation, execution, authentication and original delivery of the 2006 Bonds, and any other charge, cost, expense or fee in connection with the issuance of the 2006 Bonds.

"Defeasance Securities" means:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation);

(2) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America; or

(3) Senior debt obligations of other Government Sponsored Agencies approved by the 2006 Bond Insurer.

"DTC" means The Depository Trust Company, New York, New York, and its successors or assigns; or (in accordance with then current guidelines of the Securities and Exchange Commission) any other securities depository that the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Essential Assets" means assets necessary to provide municipal services related to the health, safety and welfare of the citizens of the City, including, but not limited to, the following types of assets of the City: animal control, communication, infrastructure, transportation, police, solid waste, city cemetery, fire protection, parking, tree maintenance, support and administrative facilities and utilities, but does not include assets used for leisure or cultural activities, including, but not limited to, the following types of assets of the City: community centers, library, zoo, golf, open space, parks, museums and learning centers.

"Event of Default" means an event defined as such in the 2006 Indenture.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period thereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

"First Amendment to Master Project Lease" means the Amendment to Master Project Lease, dated as of July 1, 2000, between the Authority and the City, amending the Master Project Lease to add the 2000 Project to the Project leased by the Authority to the City under the Master Project Lease.

"First Amendment to Master Site Lease" means the Amendment to Master Site Lease, dated as of July 1, 2000, between the City and the Authority, amending the Master Site Lease to add the 2000 Site to the Site leased by the City to the Authority under the Master Site Lease.

"Fifth Amendment to Master Project Lease" means the Fifth Amendment to Master Project Lease, dated as of June 1, 2005, between the Authority and the City, relating to the various master lease program facilities as described therein.

"Fifth Amendment to Master Site Lease" means the Fifth Amendment to Master Site Lease, dated as of June 1, 2006, between the City and the Authority, amending the Master Site Lease to add the 2006 Site to the Site leased by the City to the Authority thereunder.

"Fourth Amendment to Master Project Lease" means the Fourth Amendment to Master Project Lease, dated as of September 1, 2003, between the Authority and the City, amending the Master Project Lease to add the 2003 Project to the Project leased by the Authority to the City under the Master Project Lease.

"Fourth Amendment to Master Site Lease" means the Fourth Amendment to Master Site Lease, dated as of September 1, 2003, between the City and the Authority, amending the Master Site Lease to add the 2003 Site to the Site leased by the City to the Authority under the Master Site Lease.

"Holder" means any person who shall be the registered owner of any Bond, as shown on the registration books maintained by the Trustee pursuant to the 2006 Indenture.

"Improvements" means the improvements acquired and constructed by the City under the Master Project Lease and under the First Amendment to Master Project Lease, the Second Amendment to Master Project Lease, the Third Amendment to Master Project Lease, the Fourth Amendment to Master Project Lease, the Fifth Amendment to Master Project Lease and the Sixth Amendment to Master Project Lease and all Additional Improvements.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the Authority, and who, or each of whom--

(1) is in fact independent and not under the domination of the Authority;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the Authority; and

(3) is not connected with the Authority as an officer of the Authority, but who may be regularly retained to provide accounting services to the Authority.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.

"Insured Bonds" means the Series A Serial Bonds maturing on December 1 in each of the years 2010 through 2026, both years inclusive, and the Series A Term Bonds maturing on December 1, 2031 and on December 1, 2036.

"Legal Investments" means any of the following obligations if and to the extent that, at the time of making such investment, they are permitted by applicable law:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration

- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" or higher by Moody's and "A-1" or "A-1+" or higher by Standard & Poor's and which mature not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" or higher by Moody's and "A-1+" or higher by Standard & Poor's and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or higher by Standard & Poor's, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and Standard & Poor's or any successors thereto; or

(B) (i) which are fully secured as to interest and principal and redemption premiums, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such interest and principal and redemption premiums, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay interest and principal and redemption premiums, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and Standard & Poor's;

(9) Investments in the City of Sacramento Investment Pool "A";

(10) Investment agreements approved in writing by the 2006 Bond Insurer (supported by appropriate opinions of counsel); and

(11) Other forms of investments (including repurchase agreements) approved in writing by the 2006 Bond Insurer.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Legal Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established by prior agreement among the Authority, the Trustee and the 2006 Bond Insurer.

"Lien" means any mortgage, pledge, security interest, lien, judgment lien, easement or other encumbrance on title, including, but not limited to, any mortgage or pledge of, any security interest in or any lien or encumbrance on the Project.

"Make Whole Redemption Price" means a redemption price equal to the greater of (i) 100 percent of the principal amount of the Series B Bonds to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series B Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points), plus in each case, accrued and unpaid interest on the Series B Bonds being redeemed to the date fixed for redemption.

"Master Project Lease" means that certain Master Project Lease, dated as of December 1, 1999, between the Authority and the City, as amended by the First Amendment to Master Project Lease, the Second Amendment to Master Project Lease, the Third Amendment to Master Project Lease, the Fourth Amendment to Master Project Lease, the Fifth Amendment to Master Project Lease, the Sixth Amendment to Master Project Lease, and by any other amendments thereto.

"Master Site Lease" means that certain Master Site Lease, dated as of December 1, 1999, between the Authority and the City, as amended by the First Amendment to Master Site Lease, the Second Amendment to Master Site Lease, the Third Amendment to Master Site Lease, the Fourth Amendment to Master Site Lease and the Fifth Amendment to Master Site Lease.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "Moody's" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the Authority and satisfactory to and approved by the 2006 Bond Insurer.

"Official Statement" means the Official Statement relating to the 2006 Bonds, dated June 1, 2006.

"Opinion of Counsel" means a written opinion of a law firm of recognized national standing relating to municipal bonds that is retained by the Authority and satisfactory to and approved by the 2006 Bond Insurer.

"Outstanding," when used as of any particular time with reference to 2006 Bonds, means (subject to the 2006 Indenture) all 2006 Bonds except --

(1) 2006 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) 2006 Bonds paid or deemed to have been paid pursuant to the 2006 Indenture; and

(3) 2006 Bonds in lieu of or in substitution for which replacement 2006 Bonds shall have been executed, authenticated and delivered pursuant to the 2006 Indenture.

"Permitted Encumbrances" means, as of any particular time: (i) the Master Site Lease; (ii) the Master Project Lease; (iii) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Master Project Lease, make payment in installments over a period of years; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law for work or services performed or materials furnished in connection with the Project which are not due and payable or which are not delinquent or the amount or validity of which is being contested in good faith and the collection of which is stayed; and (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which take effect after the date of the original execution and delivery of the 2006 Bonds and which an independent architect or engineer (or other professional) certifies in writing will not materially impair the use of the Project for the purpose intended by the City; and to which the Authority and the City consent in writing, and as to which the Rating Agencies shall have been given written notice.

"Principal Corporate Trust Office" means the principal corporate trust office of the Trustee in San Francisco, California, at which at any particular time its corporate trust business is being administered, except that with respect to the presentation of 2006 Bonds for registration, transfer, exchange, payment or redemption, such term shall mean such other office or agency of the Trustee designated in writing from time to time by the Trustee to the Authority and the 2006 Bond Insurer as its Principal Corporate Trust Office.

"Program" means the program implemented under the Act to provide assistance to the City so that the City can finance or refinance capital improvements in order that the City may achieve its public purposes.

"Program Obligation" means the Sixth Amendment to Master Project Lease.

"Program Obligation Payments" means all payments by the City to the Authority under the Program Obligation, as provided therein.

"Project" means the 1999 Project, the 2000 Project, the 2001 Project, the 2002A Project, the 2003 Project, the 2006 Project and all Additional Projects.

"Rating Agencies" means Moody's and Standard & Poor's, and their respective successors or assigns, but only to the extent that and so long as either of them is then rating the 2006 Bonds, or any other nationally recognized securities rating agency or agencies then rating the 2006 Bonds at the request of the Authority.

"Record Date" means, with respect to an Interest Payment Date, the day that is the fifteenth (15^{th}) day of the month prior to such Interest Payment Date, whether or not such day is a Business Day.

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. and their respective successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series B Bond, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

"Rental Payments" means the Base Rental Payments and the Additional Rental Payments.

"Reserve Requirement" means either (i) the Series A Reserve Requirement or (ii) the Series B Reserve Requirement.

"Revenues" means: (a) all Program Obligation Payments, including all amounts realized upon the enforcement of the Program Obligation Payments due under the Program Obligation; (b) all money deposited and held from time to time in any of the accounts and funds established under the 2006 Indenture (except the Rebate Fund and with respect to subaccounts within the Reserve Account, only in accordance with the 2006 Indenture); and (c) all investment income with respect to any money held in the accounts and funds established under the 2006 Indenture (except the Rebate Fund).

"Secretary" means the Secretary of the Authority.

"Second Amendment to Master Project Lease" means the Second Amendment to Master Project Lease, dated as of April 1, 2001, between the Authority and the City, amending the Master Project Lease to add the 2001 Project to the Project leased by the Authority to the City under the Master Project Lease.

"Second Amendment to Master Site Lease" means the Second Amendment to Master Site Lease, dated as of April 1, 2001, between the City and the Authority, amending the Master Site Lease to add the 2001 Site to the Site leased by the City to the Authority under the Master Site Lease.

"Serial 2006 Bonds" means the Bonds for which no Sinking Fund Payments are provided pursuant to the 2006 Indenture.

"Series A Bonds" means the Authority's 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) issued pursuant to the 2006 Indenture.

"Series A Serial Bonds" means the Series A Bonds for which no Sinking Fund Payments are provided pursuant to the 2006 Indenture.

"Series A Reserve Requirement" means, as of any date of determination by the City, the least of (i) ten percent (10%) of the initial offering price to the public of the Series A Bonds related to the 2006 Series A Base Rental Payments paid by the City pursuant to the Sixth Amendment to Master Project Lease (as determined under the Code), (ii) the maximum annual 2006 Series A Base Rental Payments related to the Series A Bonds payable in the current or any future one-year period ending on each June 30 or (iii) 125% of the average annual 2006 Series A Base Rental Payments related to the Series A Bonds payable in the current and all future one-year periods ending on each June 30, but in any such case not greater than the maximum amount permitted to be held in the Series A Reserve Subaccount under the Code.

"Series A Term Bonds" means the Series A Bonds which are payable on or before their specified maturity date or dates from Sinking Fund Payments established for that purpose and calculated to retire such Series A Bonds on or before their specified maturity date or dates pursuant to the 2006 Indenture.

"Series B Bonds" means the Authority's 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program) issued pursuant to the 2006 Indenture.

"Series B Reserve Requirement" means, as of any date of determination by the City, the least of (i) ten percent (10%) of the initial offering price to the public of the Series B Bonds related to the 2006 Series B Base Rental Payments paid by the City pursuant to the Sixth Amendment to Master Project Lease (as determined under the Code), (ii) the maximum annual 2006 Series B Base Rental Payments related to the Series B Bonds payable in the current or any future one-year period ending on each June 30 or (iii) 125% of the average annual 2006 Series B Base Rental Payments related to the Series B Bonds payable in the current and all future one-year periods ending on each June 30.

"Series B Term Bonds" means the Series B Bonds which are payable on or before their specified maturity date or dates from Sinking Fund Payments established for that purpose and calculated to retire such Series B Bonds on or before their specified maturity date or dates pursuant to the 2006 Indenture.

"Sinking Fund Payments" means the payments required by the 2006 Indenture to be deposited in the Sinking Fund Subaccount for the payment of the 2006 Term Bonds.

"Sinking Fund Subaccount" means the subaccount by that name within the Redemption Account established pursuant to the 2006 Indenture.

"Site" means the 1999 Site, the 2000 Site, the 2001 Site, the 2002A Site, the 2003 Site, the 2006 Site and all Additional Sites.

"Sixth Amendment to Master Project Lease" means the Sixth Amendment to Master Project Lease, dated as of June 1, 2006, between the Authority and the City, amending the Master Project Lease to add the 2006 Project to the Project leased by the Authority to the City thereunder.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of The McGraw Hill-Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and satisfactory to and approved by the 2006 Bond Insurer.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate executed by the Authority and the City at the time of the original issuance of the Series A Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate, as the same may be amended or supplemented from time to time in accordance with its terms.

"Term 2006 Bonds" means, collectively, the Series A Term Bonds and the Series B Term Bonds.

"Third Amendment to Master Project Lease" means the Third Amendment to Master Project Lease, dated as of July 1, 2002, between the Authority and the City, amending the Master Project Lease to add the 2002A Project to the Project leased by the Authority to the City thereunder.

"Third Amendment to Master Site Lease" means the Third Amendment to Master Site Lease, dated as of July 1, 2002, between the City and the Authority, amending the Master Site Lease to add the 2002A Site to the Site leased by the City to the Authority thereunder.

"Treasurer" means the Treasurer of the Authority.

"Treasury Rate" means, with respect to any redemption date for a particular Series B Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price.

"Trustee" means The Bank of New York Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and authorized to accept and execute trusts of the character set forth in the 2006 Indenture, at its Principal Corporate Trust Office, and its successors or assigns, or any other bank or trust company having a corporate trust office in Los Angeles or San Francisco, California which may at any time be substituted in its place as provided in the 2006 Indenture.

"Written Request of the Authority" means an instrument in writing executed by the Chair or the Treasurer, or by any other officer of the Authority duly authorized by the Board of Directors for that purpose.

THE 2006 INDENTURE

Equal Security

In consideration of the acceptance of the 2006 Bonds by the Holders thereof, the 2006 Indenture shall be deemed to be and shall constitute a contract by and among the Authority, the Trustee and the Holders from time to time to secure the full and final payment of the interest on and the principal of all 2006 Bonds which may from time to time be authorized, sold, executed, authenticated and delivered under the 2006 Indenture as and when they respectively become due, subject to the agreements, conditions, covenants and terms contained in the 2006 Indenture; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Holders without distinction, preference or priority as to security or otherwise of any 2006 Bonds over any other 2006 Bonds by reason of the number thereof or the time of execution, authentication or delivery thereof or for any cause whatsoever, except as expressly provided in the 2006 Indenture or in the 2006 Bonds.

Authorization and Purpose of 2006 Bonds

The Board of Directors has reviewed all proceedings heretofore taken relative to the authorization of the 2006 Bonds and has found, as a result of such review, and finds and determines that all acts, conditions and things required by law to exist, happen and be performed precedent to and for the issuance of the 2006 Bonds do exist, have happened and have been performed in due time, form and manner as required by the Act, and the Authority is now authorized, pursuant to each and every requirement of the Act and of the 2006 Indenture, to issue the 2006 Bonds in the form and manner provided in the 2006 Indenture, which 2006 Bonds shall be entitled to the benefit, protection and security of the Act and of the 2006 Indenture.

The purpose for which the 2006 Bonds are to be issued under the Act and under the 2006 Indenture is to provide funds to pay the costs of the acquisition by the Authority of the rights to receive the Program Obligation Payments due under the Program Obligation and to pay the Costs of Issuance.

From and after the issuance of the 2006 Bonds, the findings and determinations of the Board of Directors respecting the 2006 Bonds shall be conclusive evidence of the existence of the facts so found and determined in any action or proceeding in any court in which the validity of the 2006 Bonds is at issue, and no bona fide purchaser of any of the 2006 Bonds shall be required to see to the existence of any fact or to the performance of any condition or to the taking of any proceeding required prior to such issuance or to the application of the purchase price paid for the 2006 Bonds, and the validity of the issuance of the 2006 Bonds shall not be dependent on or affected in any way by any proceedings taken by the Authority for the acquisition of the rights to receive the Program Obligation Payments due under the Program Obligation or by any contracts made by the Authority in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or her or its obligation with respect thereto. The recital contained in the 2006 Bonds that the 2006 Bonds are issued pursuant to the Act and pursuant to the 2006 Indenture shall be conclusive evidence of their validity and of the regularity of their issuance, and the 2006 Bonds shall be deemed to be issued, within the meaning of the 2006 Indenture, whenever the definitive 2006 Bonds (or any temporary 2006 Bonds exchangeable therefor) shall have been originally delivered to the purchaser thereof and the proceeds of sale thereof received.

Procedure for the Issuance of 2006 Bonds

At any time after the sale of the 2006 Bonds, the Authority shall prepare the 2006 Bonds and shall execute the 2006 Bonds for original issuance under the 2006 Indenture and shall deliver them to the Trustee, and thereupon the 2006 Bonds shall be authenticated and delivered by the Trustee to the underwriters thereof upon receipt of a Written Request of the Authority and upon receipt of payment of the purchase price thereof from the underwriters (net of the cost of the premium for the Bond Insurance Policy, which shall be paid by the underwriters of the 2006 Bonds directly to the 2006 Bond Insurer). Upon receipt of payment of such net purchase price of the 2006 Bonds from the underwriters, the Trustee shall set aside and deposit in or transfer such amounts for deposit in certain funds established under the 2006 Indenture

Program Fund

There is established under the 2006 Indenture a fund to be maintained by the Trustee to be known as the "Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds (Community Reinvestment Capital Improvement Program) Program Fund," into which fund shall be deposited the amount required to be deposited therein by the provisions of 2006 Indenture. All money in the Program Fund shall be applied by the Trustee upon receipt of a Written Request of the Authority in the manner provided by the Act for the payment of the acquisition of the rights to receive the Program Obligation Payments due under the Program Obligation (or for making reimbursements to the Authority for any such costs theretofore paid by it); provided, that any money remaining in the Program Fund after the completion of the acquisition of the rights to receive the Program Obligation Payments due under the Program Obligation shall be withdrawn by the Trustee from the Program Fund and deposited by the Trustee in the Revenue Fund and the Program Fund shall thereupon be closed.

Costs of Issuance Fund

There is established under the 2006 Indenture in the treasury of the Authority a fund to be maintained by the Treasurer to be known as the "Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds (Community Reinvestment Capital Improvement Program) Costs of Issuance Fund," into which fund shall be deposited the amount required to be deposited therein by the provisions of the 2006 Indenture. All money in the Costs of Issuance Fund shall be withdrawn as directed by the Treasurer or his designee in the manner provided by law for payment of Costs of Issuance; provided, that any money remaining in the Costs of Issuance Fund after the completion of the payment of the Costs of Issuance (and in any event not later than June 1, 2007) shall be withdrawn by the Treasurer from the Costs of Issuance Fund and transferred to the Trustee for deposit by the Trustee in the Revenue Fund.

Assignment of Program Obligation Payments and Pledge of Revenues

The Authority under the 2006 Indenture assigns to the Trustee for the benefit of the Holders of the 2006 Bonds all of the Authority's right, title and interest in the rights to receive the Program Obligation Payments due under the Program Obligation as security for the payment of the 2006 Bonds; provided, that the assignment of the rights to receive the Program Obligation Payments due under the Program Obligation to the Trustee is solely in its capacity as Trustee under the 2006 Indenture, and the duties, powers and liabilities of the Trustee in acting under the 2006 Indenture shall be subject to the provisions thereof, and the Trustee shall have no responsibility for the representations, covenants or warranties of the Authority contained in the Program Obligation. All Revenues received by the Authority under the 2006 Indenture are pledged to the payment of the interest on and the principal of the 2006 Bonds as and when they respectively become due as provided in the 2006 Indenture, and the Revenues shall not be used for any other purpose while any of the 2006 Bonds remain Outstanding. This pledge shall constitute a first pledge of and charge and lien upon the Revenues for the payment of the interest on and the principal of the 2006 Bonds as and when they respectively become due in accordance with the terms of the 2006 Indenture and of the 2006 Bonds.

Receipt and Deposit of Revenues in the Revenue Fund

In order to carry out and effectuate the assignment and pledge contained in the 2006 Indenture, the Authority agrees and covenants that all Revenues when and as received by the Authority will be forthwith transferred by the Authority to the Trustee for deposit in the "Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds (Community Reinvestment Capital Improvement Program) Revenue Fund," which fund is created and which fund the Authority agrees and covenants to maintain with the Trustee so long as any 2006 Bonds are Outstanding under the 2006 Indenture. All money in the Revenue Fund shall be accounted for through and held in trust in the Revenue Fund by the Trustee, and the Authority shall have no beneficial right or interest in any money in the Revenue Fund. All Revenues shall be allocated, applied and disbursed solely to the purposes and uses set forth in the 2006 Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund

All money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Revenue Fund (each of which is created and each of which the Trustee covenants and agrees to cause to be maintained) in the following order of priority:

(i) Interest Account,

(ii) Redemption Account, and

(iii) Reserve Account (including the Series A Reserve Subaccount and the Series B Reserve Subaccount).

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the 2006 Indenture.

(a) Interest Account. On or before June 1 and December 1 of each year, commencing pursuant to the 2006 Indenture, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account an amount of money equal to the amount of interest becoming due and payable on all Outstanding 2006 Bonds on such June 1 or December 1, as the case may be; provided, that no deposit need be made into the Interest Account if the amount contained therein is at least equal to the amount of interest becoming due and payable on all Outstanding 2006 Bonds on such June 1 or December 1.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2006 Bonds as it shall become due and payable (including the payment of accrued interest on any 2006 Bonds purchased or redeemed prior to maturity).

(b) Redemption Account. On or before December 1 of each year, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Subaccount in the Redemption Account (which subaccount is created under the 2006 Indenture and which the Trustee covenants and agrees to cause to be maintained so long as any Serial 2006 Bonds shall be Outstanding) an amount of money equal to the principal amount of all Outstanding Serial 2006 Bonds maturing on such December 1, and on or before December 1 of each year, the Trustee shall set aside from the Revenue Fund and deposit in the Sinking Fund Subaccount in the Redemption Account (which subaccount is created under the 2006 Indenture and which the Trustee covenants and agrees to cause to be maintained so long as any Term 2006 Bonds shall be Outstanding) an amount of money equal to the Sinking Fund Payment required to be deposited therein on such December 1 for all Outstanding Term 2006 Bonds; provided, that no deposit need be made in the Redemption Account if the amount contained in the Principal Subaccount therein is at least equal to the principal amount of all Outstanding Serial 2006 Bonds maturing by their terms on such December 1 or if the amount contained in the Sinking Fund Subaccount therein is at least equal to the amount of the Sinking Fund Payment required to be deposited therein on such December 1 for all Outstanding Term 2006 Bonds.

All money in the Principal Subaccount in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Serial 2006 Bonds as they shall become due and payable, whether at maturity or on prior redemption, and all money in the Sinking Fund Subaccount in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of purchasing or redeeming or paying the Term 2006 Bonds, and with respect to the Sinking Fund Subaccount, on each Sinking Fund Payment date the Trustee shall apply the Sinking Fund Payment required to be made on such date to the redemption of the Term 2006 Bonds upon the notice and in the manner provided in the 2006 Indenture or for the payment at maturity of the Term 2006 Bonds; provided, that at any time prior to selection of Term 2006 Bonds for such redemption the Trustee shall, upon receipt of a Written Request of the Authority, apply any money in the Sinking Fund Subaccount to the purchase for cancellation of Term 2006 Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in such Written Request of the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for the Term 2006 Bonds upon redemption by application of such Sinking Fund Payment, and if during the twelve-month period immediately preceding any Sinking Fund Payment date the Trustee has purchased any Term 2006 Bonds with money in the Sinking Fund Subaccount, such Term 2006 Bonds so purchased shall be applied to the extent of the full principal amount thereof to reduce the Sinking Fund Payment due on such Sinking Fund Payment date.

(c) Reserve Account. On or before June 1 and December 1 of each year, the Trustee shall set aside from the Revenue Fund and (i) shall deposit in the Series A Reserve Subaccount in the Reserve Account, a sum equal to the amount of money, if any, determined by the Trustee to be necessary to restore the Series A Reserve Subaccount established in the Reserve Account to the Series A Reserve Requirement and (ii) shall deposit in the Series B Reserve Subaccount in the Reserve Account, a sum equal to the amount of money, if any, determined by the Trustee to be necessary to restore the Series B Reserve Subaccount established in the Reserve Account to the Series B Reserve Requirement; and for this purpose all investments in the Reserve Account on or before June 1 and December 1 of each year (commencing pursuant to the 2006 Indenture) shall be valued at the face value thereof if such investments mature within twelve (12) months from the date of such valuation, or if such investments mature more than twelve (12) months after the date of such valuation, at the price at which such investments are redeemable by the holder, at his option, if so redeemable, or if not so redeemable, at the then current market value of such investments; provided, that (1) no deposit need be made in the Series A Reserve Subaccount in the Reserve Account if the amount contained therein is at least equal to the Series A Reserve Requirement and (2) no deposit need be made in the Series B Reserve Subaccount in the Reserve Account if the amount contained therein is at least equal to the Series B Reserve Requirement; and provided further, that if as a result of the foregoing valuation the Trustee determines that an amount in excess of the applicable Reserve Requirement is on deposit in any of the subaccounts in the Reserve Account, the Trustee shall notify the Authority of such excess and deposit or transfer such excess as directed in a Written Request of the Authority filed with the Trustee; provided that if no Written Request of the Authority is filed with the Trustee by December 15 of each year, the Trustee shall deposit such excess in the Revenue Fund, as a credit against payments due under the Sixth Amendment to Master Project Lease, subject to any applicable requirements of the Tax Certificate. In the event that there are insufficient Revenues available to deposit the total amount necessary to maintain the applicable Reserve Requirement, deposits of such Revenues to the Series A Reserve Subaccount and the Series B Reserve Subaccount shall be made proportionately, based on the amount of deficiency in each such Subaccount.

All money in the Series A Reserve Subaccount shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Series A Bonds if no other money is available in the Revenue Fund for such purpose. All money in the Series B Reserve Subaccount shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Series B Bonds if no other money is available in the Revenue Fund for such purpose.

Rebate Fund

There is established under the 2006 Indenture a fund to be maintained by the Trustee to be known as the "Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds (Community Reinvestment Capital Improvement Program) Rebate Fund." The Trustee shall deposit in the Rebate Fund from funds provided by the Authority an amount equal to the Rebate Requirement in accordance with the Tax Certificate. The Authority and the Holders shall have no rights in or claims to such money.

Punctual Payment and Performance

The Authority will punctually pay the interest on and the principal of all 2006 Bonds issued under the 2006 Indenture as and when they respectively become due in strict conformity with the terms of the Act and of the 2006 Indenture and of the 2006 Bonds, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2006 Indenture and in all 2006 Supplemental Indentures and in the 2006 Bonds required to be observed and performed by it.

Indebtedness and Encumbrances

The Authority will not issue any evidences of indebtedness payable from the Revenues except as provided in the 2006 Indenture, and will not create, nor permit the creation of, any pledge, lien or other encumbrance upon any money in the Revenue Fund other than as provided in the 2006 Indenture; provided, that the Authority may at any time issue additional Authority Bonds payable on a parity from the Base Rental Payments under the Master Project Lease and may create additional pledges, liens or other encumbrances upon such Base Rental Payments under the Master Project Lease if the provisions set forth in the Master Project Lease are first satisfied.

Tax Covenants

The Authority will at all times do and perform all acts and things permitted by law and under the 2006 Indenture which are necessary to assure that interest paid on the Series A Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being excluded from gross income for federal income tax purposes; and without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Certificate. This covenant shall survive payment in full or defeasance of the Series A Bonds.

Payment of Claims

The Authority will pay and discharge any and all lawful claims which, if unpaid, might become payable from the Revenues or any part thereof or upon any funds in the hands of the Treasurer or the Trustee allocated to the payment of the interest on or the principal of the 2006 Bonds, or which might impair the security of the 2006 Bonds.

Accounting Records and Reports

The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the Authority will furnish or cause to be furnished to the Trustee audited financial statements for such Fiscal Year (constituting a part of the financial statements of the City) prepared by an Independent Certified Public Accountant. The Authority will also keep or cause to be kept such other information as required under the Tax Certificate, and the Trustee shall have no duty to review or examine such statements.

Protection of Security and Rights of Holders

The Authority will preserve and protect the security of the 2006 Bonds and the rights of the Holders and will warrant and defend their rights against all claims and demands of all persons.

Prosecution and Defense of Suits

The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to the extent involving the failure of the Authority to fulfill its obligations under the 2006 Indenture; provided, that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of any such failure by the Authority, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the 2006 Indenture, except for any loss, cost, damage or expense resulting from the active or passive negligence or willful misconduct of the Trustee.

Enforcement and Amendment of the Program Obligation

The Authority shall enforce all of its rights with respect to the Program Obligation to the fullest extent necessary to preserve the rights and protect the security of the Holders under the 2006 Indenture. The Program Obligation may only be amended without the consent of or prior notice to the Holders or the written approval of the Trustee or the 2006 Bond Insurer for the purposes set forth in the Program Obligation, and neither the Authority nor the Trustee shall consent to any other amendment, change or modification of the Program Obligation without the mailing of a notice thereof and receipt of the written approval or consent of (i) the 2006 Bond Insurer (provided the Bond Insurance Policy is then in effect and the 2006 Bond Insurer is not in default under its payment obligations thereunder) or (ii) the Holders of not less than a majority in aggregate principal amount of the 2006 Bonds at the time Outstanding (if the Bond Insurance Policy is no longer in effect or the 2006 Bond Insurer is in default under its payment obligations thereunder) given and procured as provided in the 2006 Indenture; provided that no such amendment shall (a) extend the payment date of any Program Obligation Payments, or reduce the interest or principal payments due under the Program Obligation, without the prior written consent of the Holder of each Bond so affected, or (b) reduce the percentage of 2006 Bonds the consent of the Holders of which is required for the execution of any amendment to the Program Obligation; and provided further, that nothing contained in the 2006 Indenture shall be construed to prevent the Trustee, with the prior consent of the Authority and the 2006 Bond Insurer, from settling a default under the Program Obligation on such terms as the Trustee may determine to be in the best interests of the Holders. If at any time the Authority shall request the consent of the Trustee to any such proposed amendment, change or modification of the Program Obligation, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be mailed in the same manner as provided by the 2006 Indenture, which such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the Principal Corporate Trust Office of the Trustee for inspection by the 2006 Bond Insurer or Holders, as applicable.

Maintenance of Existence

The Authority will, so long as any 2006 Bonds are Outstanding under the 2006 Indenture, maintain its existence, powers and authority as a joint exercise of powers authority under the laws of the State.

Continuing Disclosure

The Authority will cause the City to comply with and carry out all of the provisions of the Continuing Disclosure Certificate, as originally executed and as it may be amended from time to time in accordance with the terms thereof; provided, that failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default under the 2006 Indenture or a breach by the Trustee of any of its duties or obligations thereunder; and provided further, that the Trustee may and, at the request of the Authority or the Holders of at least 25% in aggregate principal amount of Outstanding 2006 Bonds (but only to the extent indemnified to its satisfaction from liability or expense, including fees and expenses of its attorneys) shall, or any Holder may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this section.

Further Assurances

The Authority will adopt, deliver, execute, make and file any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the 2006 Indenture and for the better assuring and confirming unto the Holders of the rights and benefits provided in the 2006 Indenture, including without limitation the filing of all financing statements, agreements, instruments or other documents in the forms and in the locations necessary to perfect and protect, and to continue the perfection of, the pledge of the Revenues provided in the 2006 Indenture to the fullest extent possible under applicable law of the State.

Procedure for Amendment of or Supplement to the 2006 Indenture

(a) Amendment or Supplement With Consent of Holders. The 2006 Indenture and the rights and obligations of the Authority and of the Holders may be amended or supplemented at any time by the execution and delivery of a 2006 Supplemental Indenture by the Authority and the Trustee, which 2006 Supplemental Indenture shall become binding when the written consents of the Holders of at least a majority in aggregate principal amount of the 2006 Bonds then Outstanding, exclusive of 2006 Bonds disqualified as provided in the 2006 Indenture, shall have been filed with the Trustee; provided, that the prior written consent of the 2006 Bond Insurer shall be required prior to submitting any such 2006 Supplemental Indenture to the Holders of their consent; and provided further, that before executing any such 2006 Supplemental Indenture the Trustee shall first be provided at the Authority's expense with an Opinion of Counsel that such 2006 Supplemental Indenture complies with the provisions of the 2006 Indenture, on which opinion the Trustee may conclusively rely; and provided further, that no such amendment or supplement shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Authority to pay the interest on or the principal of or make any Sinking Fund Payment for any 2006 Bond at the time and place and at the rate and in the currency and from the funds provided in the 2006 Indenture without the express written consent of the Holder of such 2006 Bond, or (2) permit the issuance by the Authority of any obligations payable from the Revenues other than the 2006 Bonds as provided in the 2006 Indenture, or jeopardize the ability of the Authority to collect the Revenues, or (3) reduce the percentage of 2006 Bonds required for the written consent to any such amendment or supplement, or (4) modify any rights or obligations of the Trustee without its prior written assent thereto.

(b) Amendment or Supplement Without Consent of Holders. The 2006 Indenture and the rights and obligations of the Authority and of the Holders may also be amended or supplemented at any time by the execution and delivery of a 2006 Supplemental Indenture by the Authority and the Trustee, which 2006 Supplemental Indenture shall become binding upon execution without the prior written consent of any Holders, but only to the extent permitted by law (and subject to obtaining the prior written consent of the 2006 Bond Insurer) and only after receiving an approving Opinion of Counsel and only for any one or more of the following purposes --

(i) To add to the agreements and covenants required in the 2006 Indenture to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority which shall not (in the opinion of the Authority) adversely affect the interests of the Holders, or to surrender any right or power reserved therein to or conferred therein upon the Authority which shall not (in the opinion of the Authority) adversely affect the interests of the Holders;

(ii) To make such provisions for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained in the 2006 Indenture or in regard to questions arising under the 2006 Indenture which the Authority may deem desirable or necessary and not inconsistent therewith and which shall not (in the opinion of the Authority) adversely affect the interests of the Holders;

(iii) To add to the agreements and covenants contained in the 2006 Indenture such other agreements and covenants as may be necessary to qualify the 2006 Indenture under the Trust Indenture Act of 1939;

(iv) To make such additions, deletions or modifications as may be necessary or appropriate to assure compliance with Section 148(f) of the Code relating to the required rebate of excess investment earnings to the United States of America, or otherwise as may be necessary to assure the exclusion from gross income for purposes of federal income taxation of the interest on the 2006 Bonds or the exemption of such interest from State personal income taxes;

(v) To make such additions, deletions or modifications as may be necessary or appropriate to maintain any then current rating by any of the Rating Agencies on the 2006 Bonds; or

(vi) To add to the rights of the Trustee.

In connection with the proceedings for the execution of any 2006 Supplemental Indenture, the Authority shall (i) provide each of the Rating Agencies with a notice of such amendment together with a copy of the proposed 2006 Supplemental Indenture at least fifteen (15) days in advance of the execution and delivery thereof and (ii) provide the 2006 Bond Insurer with a transcript of all proceedings relating to the execution and delivery of such 2006 Supplemental Indenture.

Events of Default and Acceleration of Maturities

If one or more of the following events ("Events of Default" under the 2006 Indenture) shall happen, that is to say –

(a) if default shall be made by the Authority in the due and punctual payment of any interest on or principal of or Sinking Fund Payment for any of the 2006 Bonds when and as the same shall become due and payable;

(b) if default shall be made by the Authority in the observance or performance of any of the other agreements or covenants contained in the 2006 Indenture required to be observed or performed by it, and such default shall have continued for a period of thirty (30) days after the Authority shall have been given notice in writing of such default by the Trustee;

(c) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; or

(d) if an Event of Default (as that term is defined in the Master Project Lease) has occurred under the Master Project Lease;

then and in each and every such case during the continuance of such Event of Default the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the 2006 Bonds then Outstanding, and in each case so long as the Trustee is indemnified to its satisfaction therefor, shall, by notice in writing to the Authority, declare the principal of all 2006 Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall, without further action, become due and payable, anything contained in the 2006 Indenture or in the 2006 Bonds to the contrary notwithstanding; provided, that this provision is subject to the condition that if at any time after the principal of the 2006 Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the 2006 Bonds and all principal of the 2006 Bonds matured prior to such declaration, with interest at the rate borne by such 2006 Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the 2006 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than a majority in aggregate principal amount of 2006 Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Holders of all the 2006 Bonds then Outstanding, rescind and annul such declaration and its consequences; and provided further, that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All money in the accounts and funds provided in the 2006 Indenture upon the date of the declaration of acceleration by the Trustee as provided in the 2006 Indenture and all Revenues thereafter received by the Authority under the 2006 Indenture shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the 2006 Indenture and of any other agreement to which the Trustee is a party in connection therewith, including any outstanding fees and expenses of the Trustee and including reasonable compensation to its accountants and counsel, and thereafter to the payment of the costs and expenses of the Holders in providing for the declaration of such Event of Default, including reasonable compensation to their accountants and counsel; and

Second, upon presentation of the several 2006 Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the 2006 Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such 2006 Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the 2006 Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Institution of Legal Proceedings by the Trustee

If one or more Events of Default shall happen and be continuing, the Trustee may, and upon the written request of the Holders of a majority in principal amount of the 2006 Bonds then Outstanding, and in each case so long as the Trustee is indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Holders of 2006 Bonds under the 2006 Indenture by a suit in equity or action at law, either for the specific performance of any agreement or covenant contained in the 2006 Indenture or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the 2006 Indenture; provided, that nothing contained therein or in the 2006 Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and the principal of the 2006 Bonds to the respective Holders of the 2006 Bonds as and when they respectively become due as provided in the 2006 Indenture from the Revenues as provided therein pledged for such payment, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein and in the 2006 Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by the 2006 Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Authority, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the 2006 Indenture conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the 2006 Indenture or now or thereafter existing at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Discharge of the 2006 Bonds

If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding 2006 Bonds the interest thereon and the principal thereof as and when they respectively become due and payable in accordance with their terms or upon redemption proceedings as provided in the 2006 Indenture, or otherwise, and the whole amount of the principal and the interest so due and payable upon all of the 2006 Bonds shall be paid, or provision shall have been made for the payment of the same as provided in the 2006 Indenture, together with all other sums payable by the Authority thereunder, including all fees and expenses of the Trustee, then and in that case the 2006 Indenture and the lien created thereby shall be completely discharged and satisfied and the Authority shall be released from the agreements, conditions, covenants and other obligations of the Authority contained in the 2006 Indenture, and the Trustee shall assign and transfer to or upon the order of the Authority all property, money or securities (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Any Outstanding 2006 Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if there shall be on deposit with the Trustee money which is sufficient to pay the interest due on such 2006 Bonds on such date and the principal due on such 2006 Bonds on such date.

Any Outstanding 2006 Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this section (except that the Authority shall remain liable for the payment of such 2006 Bonds, but only out of the money or securities deposited with the Trustee) if (1) in case any of such 2006 Bonds are to be redeemed on any date prior to their maturity date, the

Authority shall have agreed to mail a notice of redemption pursuant to the 2006 Indenture to the respective Holders of all such Outstanding 2006 Bonds and to DTC and the Information Services selected by it pursuant to the 2006 Indenture, (2) there shall have been deposited with the Trustee either money in an amount which shall be sufficient or Defeasance Securities the interest on and the principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the interest to become due on such 2006 Bonds on and prior to the maturity dates or redemption dates thereof, as the case may be, and the principal of such 2006 Bonds on and prior to the maturity dates or the redemption dates thereof, as the case may be, as evidenced by (i) an Accountant's Report of an Independent Certified Public Accountant acceptable to the 2006 Bond Insurer verifying the sufficiency of the escrow established to pay the 2006 Bonds in full on the maturity or redemption date (a "Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2006 Bond Insurer), and (iii) an Opinion of Counsel to the effect that the 2006 Bonds are no longer Outstanding under the 2006 Indenture (with each such Verification and Opinion of Counsel to be acceptable in form and substance, and addressed, to the Authority, the Trustee and the 2006 Bond Insurer, and in the event a forward purchase agreement is employed in the refunding, such agreement shall be subject to the approval of the 2006 Bond Insurer and shall be accompanied by such Opinions of Counsel as may be required by the 2006 Bond Insurer, and the 2006 Bond Insurer shall be provided with final drafts of the above-referenced documentation no less than five (5) Business Days prior to the funding of the escrow); and (3) in the event such 2006 Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have agreed to mail pursuant to the 2006 Indenture a notice to the Holders of such 2006 Bonds and to DTC and the Information Services selected by it pursuant to the 2006 Indenture that the deposit required by clause (2) above has been made with the Trustee and that such 2006 Bonds are deemed to have been paid in accordance with the 2006 Indenture, and stating the maturity dates or redemption dates, as the case may be, upon which money will be available for the payment of the principal of such 2006 Bonds. 2006 Bonds shall be deemed Outstanding under the 2006 Indenture unless and until they are in fact paid and retired or the above criteria are met.

Notwithstanding anything contained in the 2006 Indenture to the contrary, in the event that the interest and/or principal due on the Insured Bonds shall be paid by the 2006 Bond Insurer pursuant to the Bond Insurance Policy, the Insured Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Authority, and the assignment and pledge of the Revenues and the other funds as provided in the 2006 Indenture and all agreements, covenants and other obligations of the Authority to the Holders of the Insured Bonds shall continue to exist and shall run to the benefit of the 2006 Bond Insurer, and the 2006 Bond Insurer shall be subrogated to the rights of such Holders.

Unclaimed Money

Anything contained in the 2006 Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the 2006 Bonds or any interest thereon which remains unclaimed for two (2) years after the date when such 2006 Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee on such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such 2006 Bonds or interest thereon became due and payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust for use in accordance with the Act, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall look only to the Authority for the payment of such 2006 Bonds and the interest thereon; provided, that before the Trustee shall be required to make any such repayment the Authority shall mail pursuant to the 2006 Indenture a notice to the Holders of all Outstanding 2006 Bonds and to DTC and the Information Services selected by the Authority pursuant to the 2006 Indenture that such money remains unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the City.

Consents and Rights of the 2006 Bond Insurer

As long as the Bond Insurance Policy shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions:

(a) Any provision of the 2006 Indenture expressly recognizing or granting rights in or to the 2006 Bond Insurer may not be amended in any manner which affects the rights of the 2006 Bond Insurer under the 2006 Indenture without the prior written consent of the 2006 Bond Insurer, and the 2006 Bond Insurer reserves the right to charge the Authority a fee for any consent or amendment to the 2006 Indenture.

(b) Any reorganization or liquidation plan with respect to the Authority or the City must be acceptable to the 2006 Bond Insurer, and in the event of any such reorganization or liquidation, the 2006 Bond Insurer shall have the right to vote on behalf of all Holders of the Insured Bonds absent a default by the 2006 Bond Insurer under the Bond Insurance Policy.

(c) Anything contained in the 2006 Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the 2006 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Insured Bonds or the Trustee for the benefit of the Holders of the Insured Bonds under the 2006 Indenture, including, without limitation: (i) the right to accelerate the principal of the Insured Bonds as described in the 2006 Indenture, and (ii) the right to annul any declaration of acceleration of the Insured Bonds, and the 2006 Bond Insurer shall also be entitled to approve all waivers of Events of Default.

(d) Upon the occurrence of an Event of Default, the Trustee may, with the consent of the 2006 Bond Insurer, and shall, at the direction of the 2006 Bond Insurer or the Holders of a majority in principal amount of the Insured Bonds then Outstanding with the consent of the 2006 Bond Insurer, by written notice to the Authority and the 2006 Bond Insurer, declare the principal of the Insured Bonds to be immediately due and payable, whereupon that portion of the principal of the Insured Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the 2006 Indenture or in the Insured Bonds to the contrary notwithstanding.

(e) The 2006 Bond Insurer shall be deemed to be the Holder of all Insured Bonds then Outstanding for purposes of the 2006 Indenture, including without limitation for purposes of granting any consents or approving amendments and exercising all remedies following the occurrence of an Event of Default. Notwithstanding any other provision of the 2006 Indenture, any provision of the 2006 Indenture requiring the consent of, the giving of notice to, or control of proceedings by the 2006 Bond Insurer shall be in effect for so long as, and only during such time as (1) the Insured Bonds are Outstanding and (2) no default shall have occurred and be continuing by the 2006 Bond Insurer with respect to the payment provisions under the Bond Insurance Policy.

Information to be Provided to the 2006 Bond Insurer

As long as the Bond Insurance Policy shall be in full force and effect, the Authority or the Trustee, as appropriate, agree to furnish to the 2006 Bond Insurer (to the attention of the Surveillance Department of the 2006 Bond Insurer, unless otherwise indicated), upon request, the following:

(1) a copy of any financial statement, audit and/or annual report of the Authority and the City;

(2) a copy of any notice to be given to the Holders of the 2006 Bonds, including, without limitation, notice of any redemption of or defeasance of the 2006 Bonds, and any certificate rendered pursuant to the 2006 Indenture relating to the security for the 2006 Bonds; and

(3) such additional information it may reasonably request in writing.

The 2006 Bond Insurer shall be included as a party to be notified (to the attention of the Surveillance Department of the 2006 Bond Insurer) under the Continuing Disclosure Certificate relating to the 2006 Bonds delivered pursuant to 2006 Indenture.

The Trustee shall notify the 2006 Bond Insurer (to the attention of the General Counsel's Office of the 2006 Bond Insurer) of any failure of the Authority to provide any notices or certificates required to be provided by the Authority to the Trustee pursuant to the 2006 Indenture at the same time as it shall notify the Authority of such failure.

Notwithstanding any other provision of the 2006 Indenture, the Trustee shall immediately notify the 2006 Bond Insurer (to the attention of the General Counsel's Office of the 2006 Bond Insurer) if at any time the Trustee has actual knowledge there are insufficient moneys to make any payments of interest and/or principal as required and immediately upon the occurrence of any Event of Default under the 2006 Indenture known to the Trustee.

The Authority and the City will permit the 2006 Bond Insurer to discuss the affairs, finances and accounts of the Authority and the City or any information the 2006 Bond Insurer may reasonably request regarding the security for the 2006 Bonds with appropriate officers of the Authority and the City. The Trustee or the Authority, as appropriate, will permit the 2006 Bond Insurer to have access to and to make copies of all books and records relating to the 2006 Bonds at any reasonable time during normal business hours.

The 2006 Bond Insurer shall have the right to direct an accounting, at the Authority's expense, and the Authority's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the 2006 Bond Insurer shall be deemed an Event of Default under the 2006 Indenture; provided, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any Holder of the 2006 Bonds.

The Authority shall annually certify to the 2006 Bond Insurer that the insurance policies required by the Master Project Lease are in full force and effect, and will provide the 2006 Bond Insurer with copies of such policies upon request.

Payment Procedure Pursuant to the Bond Insurance Policy

As long as the Bond Insurance Policy shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions:

(a) At least one (1) Business Day prior to each Interest Payment Date, the Trustee will determine whether there will be sufficient money in the accounts and funds established under the 2006 Indenture to pay the interest on or principal of the Insured Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient money in such accounts and funds for such purpose, the Trustee shall so notify the 2006 Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Insured Bonds to which such deficiency is applicable and whether such Insured Bonds will be deficient as to interest or principal, or both. If the Trustee has so notified the 2006 Bond Insurer at least one (1) Business Day prior to an Interest Payment Date, the 2006 Bond Insurer will make payments of interest or principal due on the Insured Bonds on such Interest Payment Date, and if the Trustee has not so notified the 2006 Bond Insurer at least one (1) Business Day prior to an Interest Payment Date, the 2006 Bond Insurer will make payments of interest or principal due on the Insured Bonds on or before the first (1st) Business Day next following the date on which the 2006 Bond Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the 2006 Bond Insurer as provided in subsection (a) above, make available to the 2006 Bond Insurer, and at the 2006 Bond Insurer's direction, to The Bank of New York, in New York, New, York, as insurance trustee for the 2006 Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee and all records relating to the accounts and funds maintained by the Trustee under the 2006 Indenture.

(c) After giving any notice to the 2006 Bond Insurer pursuant to subsection (a) above, the Trustee shall provide the 2006 Bond Insurer and the Insurance Trustee with a list of Holders of Insured Bonds entitled to receive interest or principal payments from the 2006 Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Holders of Insured Bonds entitled to receive full or partial interest payments from the 2006 Bond Insurer and (ii) to pay principal upon Insured Bonds surrendered to the Insurance Trustee by the Holders of Insured Bonds entitled to receive full or partial principal payments from the 2006 Bond Insurer.

(d) The Trustee shall, at the time it provides notice to the 2006 Bond Insurer pursuant to subsection (a) above, notify the Holders of Insured Bonds entitled to receive the payment of interest or principal thereon from the 2006 Bond Insurer (i) as to the fact of such entitlement, (ii) that the 2006 Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the 2006 Bond Insurer, they must surrender their Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Insured Bonds to be registered in the name of the 2006 Bond Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the 2006 Bond Insurer, they must surrender their Insured Bonds for payment thereon first to the Trustee, who shall note on such Insured Bonds the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has actual notice that any payment of interest on or principal of any Insured Bond which has become due for payment and which is made to a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from such Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the 2006 Bond Insurer is notified in the manner set forth in subsection (a) above, notify all Holders of Insured Bonds that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the 2006 Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the 2006 Bond Insurer its records evidencing the payments of interest on and principal of the Insured Bonds which have been made by the Trustee and subsequently recovered from Holders and the dates on which such payments were made.

(f) In addition to those rights granted the 2006 Bond Insurer under the 2006 Indenture, the 2006 Bond Insurer shall, to the extent it makes payment of interest on or principal of the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the 2006 Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt from the 2006 Bond Insurer of proof of the payment of interest thereon to the Holders of the Insured Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the 2006 Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon surrender of the Insured Bonds by the Holders thereof together with proof of the payment of principal thereof.

Deposit and Investment of Money in Accounts and Funds

All money held by the Treasurer in any account or fund established in the 2006 Indenture shall be invested in Legal Investments that mature not later than the date on which it is estimated that such money will be required to be paid out under the 2006 Indenture, and all money held by the Trustee in any account or fund established therein shall be invested by the Trustee pursuant to a Written Request of the Authority received by the Trustee at least two (2) days before making any such investment in those Legal Investments specified in such Written

Request of the Authority that mature not later than the date on which it is estimated that such money will be required to be paid out under the 2006 Indenture, and the Trustee may conclusively rely that any investment specified in any such Written Request of the Authority is a Legal Investment; provided, that in the absence of receipt of any such Written Request of the Authority, the Trustee shall, to the extent practicable, invest such money in securities defined in paragraph (6) of the definition of Legal Investments; and provided further, that for investment purposes the Trustee may commingle the money in the accounts and funds established under the 2006 Indenture (except the money in the Reserve Account), but shall account for each such fund or account separately. The Trustee (or any of its affiliates) may act as principal or agent or as sponsor, advisor or manager in connection with the making or disposition of any investment by the Trustee under the 2006 Indenture and may impose its customary charges therefor, and the Trustee shall not be responsible for any loss suffered in connection with any investment made in accordance therewith.

Acquisition of 2006 Bonds by Authority

All 2006 Bonds acquired by the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation as provided in the 2006 Indenture.

Maintenance of Accounts and Funds

Any account or fund required in the 2006 Indenture to be established and maintained by the Treasurer or the Trustee may be maintained by the Treasurer or the Trustee, as the case may be in its accounting records in its customary manner either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any financial reports or statements with respect thereto, be treated either as an account or as a fund; but all such accounting records with respect to all such accounts and funds shall at all times be maintained by the Treasurer and the Trustee in accordance with industry standards and with due regard for the protection of the security of the 2006 Bonds and the rights of the Holders.

THE MASTER SITE LEASE AND THE FIRST THROUGH FIFTH AMENDMENTS TO MASTER SITE LEASE

Under the Master Site Lease, the City leases to the Authority and the Authority hires from the City, on the terms and conditions set forth therein, those certain parcels of real property more particularly described therein, constituting the Site.

THE MASTER PROJECT LEASE AND THE FIRST THROUGH SIXTH AMENDMENTS TO MASTER PROJECT LEASE

Lease of the Project

Under the Master Project Lease, the Authority leases the Project to the City, and the City hires and rents the Project from the Authority, on the conditions and terms therein set forth. The City agrees and covenants that during the term of the Master Project Lease, except as provided therein, it will use the Project for public purposes, subject to and consistent with all agreements with respect thereto theretofore entered into by it, so as to afford the public the benefits contemplated by the Master Project Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Master Project Lease and in the Indenture or any Supplemental Indenture (as such terms are defined in the Master Project Lease), and the City further agrees and covenants that during the term of the Master Project Lease it will not abandon or vacate the Project.

Prohibition Against Encumbrance or Sale

The Authority and the City will not sell or otherwise dispose of the Project or any property essential to the proper operation of the Project, except as otherwise provided in the Master Project Lease, and will not create or suffer to be created any Lien upon the Project, or upon any real or personal property essential to the operation of the Project, except Permitted Encumbrances.

Liens

In the event the City shall at any time during the term of the Master Project Lease cause any improvements to be constructed to the Project or cause any materials to be supplied in or upon or attached to the Project, the City shall pay or cause to be paid when due all sums of money that may become due for any labor, services, materials, supplies or equipment furnished to or for the City in, upon, about or relating to the Project and shall keep the Project free of any and all mechanics' and materialmen's liens against the Project, and in the event any such lien attaches to or is filed against the Project, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due; provided, that if the City desires to contest any such lien, it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City shall forthwith pay and discharge such judgment. The City shall, to the maximum extent permitted by law, indemnify and hold the Authority and its officers and the Trustee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Project.

Addition or Deletion of Portions of the Project

(a) The City and the Authority may amend the Master Project Lease to (1) add any Additional Project to the Project, and/or (2) delete any real property and/or improvements thereon from the Project, upon compliance with all of the conditions set forth in the Master Project Lease; and after any such addition, the portion of the Project for which the addition has been effected shall be added to the leasehold created under the Master Project Lease; and after any such deletion, the portion of the Project for which the deletion has been effected shall be released from the leasehold created thereunder; provided, that no addition or deletion shall take place under the Master Project Lease until the City first delivers to each Bond Insurer, the Rating Agencies and the Trustee all of the following documents:

(1) A Certificate of the City containing a description of the real property and/or improvements constituting the Additional Project to be added to the

Project, or a description of the real property and/or improvements to be deleted from the Project;

(2) Executed copies of the amendment to the Master Site Lease containing the amended description of the Site and the amendment to the Master Project Lease containing the amended description of the Project, together with a Certificate of the City stating that such amendments have been duly recorded in the official records of the Sacramento County Recorder;

(3) A Certificate of the City evidencing (A) that the annual fair rental value of the Project after such amendment will be at least equal to one hundred twenty-five per cent (125%) of the maximum amount of Base Rental Payments becoming due in the then current or in any subsequent year ending on December 1 in which Base Rental Payments become due; provided, that the annual fair rental value of any portion of the Project which has been made subject to the lien of the Master Project Lease shall not be increased in excess of the value that was established at the time such portion of the Project first became subject to the lien of the Master Project Lease, (B) that the Project is composed of at least fifty per cent (50%) Essential Assets after such amendment, (C) that such amendment does not adversely affect the City's use and occupancy of the Project for the purposes intended and (D) that the useful life of the Project after any such amendment equals or exceeds the remaining term of the Authority Bonds;

(4) A California Land Title Association leasehold owner's policy or policies or an amendment or endorsement to an existing policy or policies resulting in title insurance with respect to the Project after such amendment in an amount at least equal to the principal amount of the Authority Bonds then Outstanding (including any Authority Bonds to be issued in connection with such amendment), each of which such insurance instruments, when issued, shall name the Trustee as the insured, and shall insure the leasehold estate of the Authority under the Master Site Lease (as amended) and the City under the Master Project Lease (as amended) in the Project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy the Project and as will not result in an abatement of Base Rental Payments payable by the City under the Master Project Lease;

(5) An opinion of the City Attorney of the City to the effect that the exceptions, if any contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Project described in such policy by the City for the purposes of leasing or using the Project; and

(6) An Opinion of Counsel or an opinion of the City Attorney of the City, as applicable, stating that such amendments to the Master Site Lease and the Master Project Lease (i) are authorized or permitted by the Constitution and laws of the State of California and the Master Site Lease, the Master Project Lease and the Indenture or any Supplemental Indenture; (ii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City in accordance with their respective terms; and (iii) will not cause the interest on any Bonds to be included in gross income for federal income tax purposes or not to be excluded from State of California personal income taxes.

(b) If any Additional Bonds are to be issued with respect to any related Additional Improvements, the amendment to the Master Project Lease shall also contain the following:

(1) An exhibit which sets forth the schedule of the additional Base Rental Payments relating to such Additional Bonds;

(2) The payment dates for such additional Base Rental Payments, which shall be the Interest Payment Dates;

(3) The prepayment premiums, if any, and the prepayment provisions of such additional Base Rental Payments;

(4) The provisions relating to establishment and funding of a reserve account, if any, by the City for the benefit of the registered owners of such Additional Bonds. So long as the 2002A Bonds remain outstanding, the Master Project Lease requires that a reserve account shall be established and funded in an amount equal to the Additional Bonds Reserve Requirement at all times while such Additional Bonds are outstanding. After the 2002A Bonds are no longer outstanding, the Master Project Lease requires that a reserve account, if any, may be established and funded as provided in the amendment to the Master Project Lease executed in connection with the issuance of such Additional Bonds;

(5) The amount, if any, to be deposited from the proceeds of such Additional Bonds in an improvement fund established to finance the acquisition of the Additional Improvements for the City or the Agency;

(6) The trustee for the Additional Bonds is the Trustee;

(7) The extension of the term of the Master Project Lease, if necessary; and

(8) Such other provisions as are necessary or appropriate and not inconsistent with the terms of the Master Project Lease.

(c) If any Additional Bonds are to be issued with respect to any related Additional Improvements, the City shall also deliver a Certificate of the City stating that the City has complied with the covenants contained in the Master Project Lease.

Substitution of Portions of the Project

In accordance with the terms of the Master Project Lease, in the event that the Base Rental Payments due for any portion of the Project are abated, the City and the Authority will use their best efforts (to the extent then permitted by law) to remove the real property on which such portion of the Project is located from the Master Site Lease and to remove the improvements constituting such portion of the Project from the Master Project Lease, and to substitute therefor other real property and other improvements of the City.

Term of the Master Project Lease

The term of the Master Project Lease shall (subject to discharge provisions of the Master Project Lease) be extended to November 30, 2036; provided, that if prior to November 30, 2036, all Base Rental Payments and the interest accrued thereon and all Additional Rental Payments and the interest accrued thereon and all fees and expenses of the Trustee shall have been paid (or deemed paid, as provided in the Master Project Lease), the term thereof shall end on the date of such payment or deemed payment.

If the term of the Master Site Lease is extended or shortened in accordance with the terms thereof, the term of the Master Project Lease shall (subject to amendment provisions of the Master Project Lease) end on the day immediately preceding the date of termination of the Master Site Lease.

Use of Proceeds

The parties to the Sixth Amendment to Master Project Lease agree that the sum paid to the City pursuant thereto, which constitutes the payment for the acquisition thereof, shall be deposited by the City in the "City of Sacramento 2006 CRCIP Projects Improvement Fund," which fund is established under the Sixth Amendment to Master Project Lease and which fund the City agrees and covenants to maintain with the Treasurer of the City, and the proceeds in the 2006 CRCIP Projects Improvement Fund, together with any investment earnings thereon, shall, subject to tax covenant provisions of the Master Project Lease, be used by the City to finance the acquisition and construction of the 2006 CRCIP Projects or for any other lawful expenditures of the City.

Tax Covenants

The City covenants and agrees that it will at all times do and perform all acts and things permitted by law and the Master Project Lease which are necessary in order to assure that interest paid on the Series A Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the City will comply with the provisions of the Tax Certificate, and this covenant shall survive payment in full or defeasance of the Series A Bonds.

Payment of Rental Payments

The City agrees to pay to the Authority, its successor or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the 2006 Project the following amounts at the following times:

(a) 2006 Base Rental Payments. The City shall pay to the Authority the 2006 Base Rental Payments which shall be due in the amounts and at the times set forth in the Sixth Amendment to Master Project Lease, which 2006 Base Rental Payments shall be payable by the City for the lease of the 2006 Project to it. Each 2006 Base Rental Payment shall be payable to the Trustee (as assignee of the Authority pursuant to the 2006 Indenture) in immediately available funds on the Business Day immediately preceding such 2006 Base Rental Payment

Date (the "Due Date"), and any payments remitted to the Trustee prior to any Due Date shall be invested for the credit of the City as instructed by the City, and any interest or other income with respect thereto accruing prior to each such Due Date shall belong to the City and shall be returned by the Trustee, on behalf of the Authority, to the City on June 1 and December 1 of each year or shall be transferred as otherwise directed by the City. The City shall provide written notice to the Trustee at least thirty (30) Business Days prior to any Due Date upon which it expects to be unable to pay the 2006 Base Rental Payment due on such Due Date, informing the Trustee of its expected inability to pay the 2006 Base Rental Payment due on such Due Date. The City covenants (subject to the Master Project Lease) to take such action each year as may be necessary to include all 2006 Base Rental Payments due under the Sixth Amendment to Master Project Lease in its annual budgets and (to the extent that provisions for the payment of 2006 Base Rental Payments have not been otherwise made) to make the necessary annual appropriations for all such 2006 Base Rental Payments, and the City will furnish to the Trustee, within ninety (90) days after the final adoption of each annual budget of the City, a certificate that the annual budget of the City provides for all such 2006 Base Rental Payments required to be made under the Sixth Amendment to Master Project Lease in such year.

(b) 2006 Additional Rental Payments. The City shall pay to the Authority or the Trustee, as the case may be, as 2006 Additional Rental Payments under the Sixth Amendment to Master Project Lease (in addition to the foregoing 2006 Base Rental Payments) all such amounts in each year as shall be required by the Authority or the Trustee for the payment of all costs and expenses incurred by the Authority or the Trustee in connection with the performance, enforcement or amendment of the Sixth Amendment to Master Project Lease, including but not limited to payment of all fees and expenses of the Authority or the Trustee in connection with the lease of the 2006 Project to the City, together with all salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the 2006 Indenture, all fees of auditors, accountants, attorneys or engineers, all insurance premiums, all taxes and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the 2006 Bonds or the 2006 Indenture or of the Sixth Amendment to Master Project Lease. Such 2006 Additional Rental Payments shall be billed to the City by the Authority or by the Trustee from time to time, and all amounts so billed shall be due and payable by the City to the Authority or the Trustee, as designated in the bill to the City, within thirty (30) days after receipt of the bill by the City. The City reserves the right to audit billings for 2006 Additional Rental Payments although exercise of such right shall in no way affect the duty of the City to make full and timely payment for all 2006 Additional Rental Payments.

Annual Budgets; Reporting Requirements

The City covenants (subject to abatement provisions in the Master Project Lease) to take such action as may be necessary to include all Rental Payments due under the Master Project Lease in its annual budgets and to make the necessary annual appropriations for all such Rental Payments, and the City will furnish to the Trustee, within ninety (90) days after the final adoption of each annual budget of the City, a certificate that the annual budget of the City contains an appropriation sufficient for all such Rental Payments required to be made under the Master Project Lease in such Fiscal Year.

Application of Payments

All payments received by the Trustee under the Master Project Lease shall be applied first to the payment of the Base Rental Payments due thereunder, and then to the payment of the Additional Rental Payments due thereunder, but no such application of any payments which are less than the total payment due and owing shall be deemed a waiver of any default under the Master Project Lease.

Rental Abatement

During any period in which, by reason of material damage or destruction or condemnation (as provided in the Master Project Lease) there is substantial interference with the use and possession by the City of any portion of the Project, any such interference shall first be allocated to that portion (if any) of the Project usable by the City that was not financed or refinanced with the proceeds of the Authority Bonds, and thereafter the Base Rental Payments due under the Master Project Lease with respect to each portion of the Project financed or refinanced with the proceeds of the Authority Bonds shall be abated proportionately by the fractional amount that the cost of the portion of the Project financed or refinanced with the proceeds of the Authority Bonds so damaged or destroyed or condemned bears to the entire cost of the Project financed or refinanced with the proceeds of the Authority Bonds, as calculated by the City and set forth in writing to the Authority, the Trustee, each Bond Insurer and the Rating Agencies; and the City waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Master Project Lease by virtue of any such interference and the Master Project Lease shall continue in full force and effect. Any abatement of Base Rental Payments pursuant to the Master Project Lease shall not be considered an Event of Default thereunder. Such abatement shall continue for the period commencing with the date of such damage or destruction or condemnation of such portion of the Project and ending with the substantial completion of the work of repair or replacement of the portion of the Project financed or refinanced with the proceeds of the Authority Bonds so damaged or destroyed or condemned.

Payments to Be Unconditional

The obligations of the City to make the Rental Payments required under the Master Project Lease and to perform and observe the other agreements and covenants contained therein shall be absolute and unconditional, subject to the abatement provisions thereof, and notwithstanding any dispute between or among the City, the Authority and any other person, the City shall make all Rental Payments when due without deduction or offset of any kind, and the City shall not withhold any such payments pending final resolution of such dispute nor shall it assert any right of set-off or counterclaim against its obligation to make such payments required thereunder. In the event of a determination that the City was not liable for any Rental Payments or any portion thereof, such payments or excess of payments, as the case may be, shall, at the option of the City, be credited against any subsequent Rental Payments that may become due under the Master Project Lease or shall be refunded at the time of such determination.

Prepayment of 2006 Base Rental Payments

The City may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the damage, destruction and condemnation provisions of the Master

Project Lease, all or any portion of the principal components of 2006 Base Rental Payments then unpaid, as a whole on any date or in part on any date in integral multiples of five thousand dollars ($5,000) so that the aggregate annual amounts of principal components of 2006 Base Rental Payments which shall be payable after such prepayment date shall each be in an integral multiple of five thousand dollars ($5,000) and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of 2006 Base Rental Payments then unpaid, at the following prepayment prices: (i) in the case of 2006 Base Rental Payments related to Series A Bonds to be so redeemed, at a prepayment price equal to the greater of (a) the principal amount of such Series A Bonds to be redeemed and (b) one hundred percent (100%) of the Amortized Value (as defined in the 2006 Indenture) of such Series A Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption and (ii) in the case of 2006 Base Rental Payments related to Series B Bonds to be so redeemed, at a prepayment price equal to the Make Whole Redemption Price (as defined in the 2006 Indenture).

The City may prepay, from any source of available funds, all or any portion of the principal components of 2006 Base Rental Payments related to Series A Bonds due on the Principal Payment Dates on or after December 1, 2017, as a whole on any date on or after December 1, 2016, or in part in such amounts in integral multiples of five thousand dollars ($5,000) and from such series and maturities as are selected by the Treasurer of the City on any date on or after December 1, 2016, at a prepayment price equal to the sum of the principal components prepaid plus accrued interest thereon to the date of prepayment, without a prepayment premium.

The City may prepay, from any source of available funds, all or any portion of the principal components of 2006 Base Rental Payments related to Series B Bonds due on the Principal Payment Dates as a whole or in part on any date in such amounts in integral multiples of five thousand dollars ($5,000) and from such series and maturities as are selected by the Treasurer of the City on any date at a prepayment price equal to the Make Whole Redemption Price (as defined in the 2006 Indenture).

Before making any prepayment pursuant to this section, the City shall, within five (5) Business Days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than seventy-five (75) days from the date such notice is given.

Obligation to Make Rental Payments

The agreements and covenants on the part of the City contained in the Master Project Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall 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 agreements and covenants contained in the Master Project Lease agreed to be carried out and performed by the City and to make the Rental Payments as provided therein.

Reserve Account

The City agrees that, if ever the 2006 Series A Reserve Subaccount within the Reserve Account (as those terms are defined in the 2006 Indenture) is drawn upon below the 2006 Series A Reserve Requirement, the first 2006 Series A Base Rental Payments made thereafter shall be used to restore the 2006 Series A Reserve Subaccount to an amount equal to the 2006 Series A Reserve Requirement; provided, that after the Series A Bonds are no longer Outstanding (as that term is defined in the 2006 Indenture) under the 2006 Indenture, any balance of money remaining in the 2006 Series A Reserve Subaccount shall be transferred to such other fund or account of the City or shall be otherwise used by the City for any lawful purpose as the City may direct.

The City agrees that, if ever the 2006 Series B Reserve Subaccount (as that term is defined in the 2006 Indenture) within the Reserve Account is drawn upon below the 2006 Series B Reserve Requirement, the first 2006 Series B Base Rental Payments made thereafter shall be used to restore the 2006 Series B Reserve Subaccount to an amount equal to the 2006 Series B Reserve Requirement; provided, that after the Series B Bonds are no longer Outstanding (as that term is defined in the 2006 Indenture) under the 2006 Indenture, any balance of money remaining in the 2006 Series B Reserve Subaccount shall be transferred to such other fund or account of the City or shall be otherwise used by the City for any lawful purpose as the City may direct.

Title to the Project

Title to the Project shall (except as provided in the Master Project Lease) remain in the Authority during the term of the Master Project Lease, and title to all moveable property that is placed in or about the Project by the City during the term thereof shall remain in the City during the term thereof. The City shall take all necessary actions to execute and deliver or cause to be executed and delivered all such other and further instruments, documents and assurances as may be necessary or reasonably required in order to further and more fully vest the title to the Project in the Authority.

The Authority's interest in and title to the Project shall be transferred, conveyed and assigned to and become vested in the City and the Master Project Lease shall terminate with respect thereto at the end of the term thereof, and the Authority will execute and deliver such conveyances, deeds, bills of sale, registration documents and other instruments as may be necessary to effect such vesting of record.

Security Interest

To secure the payment of all of the City's obligations under the Master Project Lease, in the event that it is determined that the Master Project Lease is intended as security, which determination shall not be affected by this section, the City grants to the Authority a security interest constituting a first lien on the Project and on all repairs, replacements or modifications thereto, and on any proceeds therefrom, except for those additions to the Project made by the City that may be removed without damaging the Project. The City will execute such additional documents, including financing statements, affidavits, notices and similar instruments, in form satisfactory to the Authority that are necessary or appropriate to establish and maintain such security interest and the security interest of any Holder or any other assignees of the Authority in the Project.

Maintenance of the Project by the City

The City agrees that, at all times during the term of the Master Project Lease, it will, at its own cost and expense, maintain, preserve and keep the Project and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals, and will pay all maintenance, operation and repair costs of the Project as they become due from all legally available money.

Taxes, Other Governmental Charges and Utility Charges

The parties to the Master Project Lease contemplate that the Project will be used for public purposes by the City and, therefore, that the Project will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use or possession by the Authority or the City of the Project is found to be subject to taxation in any form, the City will pay during the term of the Master Project Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to the Project, as well as all gas, water, electricity, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project; provided, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Master Project Lease is in effect.

Insurance

The City shall procure or cause to be procured and maintain or cause to be maintained throughout the term of the Master Project Lease with reputable commercial insurers insurance against the following risks in the following respective amounts:

(1) insurance against loss or damage to each portion of the Project by fire and lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance and sprinkler system leakage insurance and boiler insurance, which such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and which such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of such portion of the Project, excluding the cost of excavations, of grading and filling and of the land (except that such insurance may be subject to deductible clauses of not to exceed one hundred thousand dollars ($100,000) for any one loss); provided, that such insurance shall in any event be in an amount sufficient, in the event of total or partial loss, to enable the City either to retire the Bonds attributable to such portion of the Project or to restore such portion of the Project to the condition existing before such loss;

(2) use and occupancy insurance against loss, total or partial, of the use and occupancy of each portion of the Project as a result of any of the hazards covered by the insurance required by paragraph (1) above, in an amount sufficient to pay the proportionate share of the Base Rental Payments attributable to such portion of the Project for the succeeding twenty-four (24) month period;

(3) workers' compensation insurance covering all employees working in or on the Project, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work (and the City shall also require any other person or entity working in or on the Project to carry the foregoing amount of workers' compensation insurance); and

(4) a standard comprehensive public entity liability insurance policy or policies in protection of the City, the Authority and its officers and the Trustee and its directors, officers and employees, indemnifying and defending such parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Project, with minimum liability limits of one million dollars ($1,000,000) for personal injury or death of each person and three million dollars ($3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of two hundred thousand dollars ($200,000) (subject to a deductible clause of not to exceed one hundred thousand dollars ($100,000)) for damage to property resulting from each accident or event; provided, that such public liability and property damage insurance may be in the form of a single limit policy in the amount of three million dollars ($3,000,000) covering all such risks and may be maintained as part of or in conjunction with any other liability insurance carried by the City.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraphs (1), (3) and (4) above, the City may provide a self-insurance method or plan of protection, which such self-insurance maintained by the City pursuant to the foregoing sections shall comply with the following terms:

(i) the self-insurance program shall be approved by the City's Risk Manager;

(ii) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated on an annual basis by the City's Risk Manager, and any deficiencies in any self-insurance claims fund shall be remedied in accordance with the recommendation of the City's Risk Manager;

(iii) the self-insurance claims fund shall be held in a separate fund by an independent trustee or such other entity as may be approved by each Bond Insurer;

(iv) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claim reserve fund, as determined by the City's Risk Manager, shall be maintained; and

(v) the self-insurance program shall be acceptable to each Bond Insurer (with copies of any such acceptance sent to the Rating Agencies).

Any insurance policy issued pursuant to this section shall be so written or endorsed as to make losses, if any, payable to the City, the Authority and the Trustee as their respective interests may appear, except that the net proceeds, if any, of the insurance policy described in paragraph (2) of this section shall be deposited in the Revenue Funds established under the Indenture or any Supplemental Indenture in proportion to the Outstanding Bonds secured by each of the Indenture or any Supplemental Indenture, and each insurance policy provided for in this section shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority or the Trustee without first giving written notice thereof to the Authority and the Trustee at least sixty (60) days in advance of such intended cancellation or modification; provided, that the Trustee shall not be responsible for the sufficiency of any insurance required in the Master Project Lease and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

The City shall file a certificate with the Trustee and each Bond Insurer not later than July 1 of each year certifying that the insurance required by this section is in full force and effect and that the Trustee is named as a loss payee on each insurance policy which the Master Project Lease requires to be so endorsed.

Advances

In the event the City shall fail to maintain the full insurance coverage required by the Master Project Lease or shall fail to keep the Project in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Rental Payments, which amounts the City will pay within thirty (30) days of a written request therefor, together with interest thereon at the rate of twelve per cent (12%) per annum.

Damage, Destruction or Condemnation; Use of Net Proceeds

If prior to the termination of the term of the Master Project Lease (a) any portion of the Project is destroyed or is damaged by fire or other casualty, or (b) title to, or the temporary use of, any portion of the Project or the estate of the Authority or the City in such portion of the Project shall be condemned by any governmental body or by any person or firm or corporation acting under governmental authority, then the Authority and the City will cause the net proceeds of any insurance payment or any condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of such damaged, destroyed or condemned portion of the Project, and any balance of the net proceeds remaining after such work has been completed shall be paid to the City; provided, that the City, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay that portion of the principal components of the Base Rental Payments due under the Master Project Lease that has been abated, may elect (not later than forty-five (45) days after such damage, destruction or condemnation) not to repair, restore, modify, improve or replace such destroyed, damaged or condemned portion of the Project and thereupon shall cause said proceeds to be used for the prepayment of such portion of the unpaid principal components of the Base Rental Payments pursuant to the Master Project Lease.

Disclaimer of Warranties

The Authority makes no agreement, warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for use of the Project, or warranty with respect thereto. The City acknowledges that the Authority is not a manufacturer of any portion of the Project or a dealer therein and that the City leases the Project as-is, it being agreed that all of the aforementioned risks are to be borne by the City. In no event shall the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Master Project Lease or the existence, furnishing, functioning or the City's use of the Project as provided by the Master Project Lease.

Acquisition by the Trustee

The parties understand that the rights of the Authority to the receipt of the 2006 Base Rental Payments under the Sixth Amendment to Master Project Lease (and the enforcement provisions thereof) will be acquired by the Trustee pursuant to the 2006 Indenture with respect to the 2006 Bonds, and accordingly the City will make all 2006 Base Rental Payments due thereunder directly to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Master Project Lease or otherwise) that the City may from time to time have against the Authority. The City will execute all documents, including notices of assignment and chattel mortgages or financing statements which may be reasonably requested by the Authority or the Trustee or any Holder to protect their interests in the Project during the term of the Master Project Lease.

Default and Remedies

(a) If the City shall fail to pay any Base Rental Payment under the Master Project Lease when the same becomes due and payable, time being expressly declared to be of the essence thereof, or the City shall fail to keep, observe or perform any other term, covenant or condition contained therein required to be kept or performed by the City for a period of thirty (30) days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, or upon the happening of any of the events specified in subsection (b) of this section (any such case above being an "Event of Default" under the Master Project Lease), the City shall be deemed to be in default under the Master Project Lease and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant thereto, and upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following, but only subject to the direction of the Bond Insurer insuring the greatest amount of then Outstanding Bonds:

(1) To terminate the Master Project Lease in the manner provided therein on account of default by the City (to the extent then permitted by law), notwithstanding any re-entry or re-letting of the Site and the improvements thereon provided for in subparagraph (2) below, and to re-enter the Site and the improvements

thereon and remove all persons in possession thereof and all personal property whatsoever situated upon the Site and the improvements thereon and place such personal property in storage in any warehouse or other suitable place located within the City of Sacramento, California. In the event of such termination, the City will surrender immediately possession of the Site and the improvements thereon, without delay or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Site and the improvements thereon and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Master Project Lease. Notwithstanding anything contained therein, neither notice to pay rent or to deliver up possession of the Site or the improvements thereon given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Site and the improvements thereon nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Master Project Lease shall of itself operate to terminate the Master Project Lease, and no termination thereof on account of default by the City shall be or become effective by operation of law or acts of the parties to the Master Project Lease, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate the Master Project Lease. The City covenants and agrees that no surrender of the Site and the improvements thereon or of the remainder of the term of the Master Project Lease or any termination thereof shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

(2) Without terminating the Master Project Lease, (i) to collect each Base Rental Payment as it becomes due and enforce any other terms or provision of the Master Project Lease to be kept or performed by the City, regardless of whether or not the City has abandoned any portion of the Project, or (ii) to exercise any and all rights of re-entry upon the Site and the improvements thereon. In the event the Authority does not elect to terminate the Master Project Lease in the manner provided for in subparagraph (1) above, the City shall remain liable and agrees to keep or perform all covenants and conditions in the Master Project Lease contained to be kept or performed by the City and, if the Site and the improvements thereon are not re-let, to pay the full amount of the rent to the end of the term thereof, or, in the event that the Site and the improvements thereon are re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided therein for the payment of rent thereunder (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such entry or re-entry or obtaining possession of the Site and the improvements thereon. Should the Authority elect to enter or re-enter as provided, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Site and the improvements thereon, or any portion thereof, from time to time, either in the Authority's name or otherwise, upon

such terms and conditions and for such use and period as the Authority may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever situated upon the Site and the improvements thereon and to place such personal property in storage in any warehouse or other suitable place located in the City of Sacramento, California, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Site and the improvements thereon and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Master Project Lease. The City agrees that the terms of the Master Project Lease constitute full and sufficient notice of the right of the Authority to re-let the Site and the improvements thereon and to do all other acts to maintain or preserve the Site and the improvements thereon as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender thereof, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination thereof irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Master Project Lease shall vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The City further waives the right to any rental obtained by the Authority in excess of the Base Rental Payments specified in the Master Project Lease and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Site and the improvements thereon. The City further will pay the Authority the cost of any alterations or additions to the Site and the improvements thereon necessary to place the Site and the improvements thereon in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Site and the improvements thereon as provided in the Master Project Lease and all claims for damages that may result from the destruction of the Site and the improvements thereon and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Site and the improvements thereon.

(b) If (1) the City's interest in the Master Project Lease or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as thereinafter provided for, or (2) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general or any assignment for the benefit of the City's creditors, or if (3) the City shall abandon or vacate the Site and the Project, then the City shall be deemed to be in default under the Master Project Lease.

(c) The Authority shall in no event be in default in the performance of any of its obligations under the Master Project Lease or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth in this section of the Master Project Lease, upon the occurrence of an event of default as described in this section, the Authority, subject to the direction of the Bond Insurer insuring the greatest amount of then Outstanding Bonds, shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Master Project Lease or by law. The provisions of the Master Project Lease and the duties of the City and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the City and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and the members of its City Council and its officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Master Project Lease.

The exercise of any rights or remedies under any of the Indenture or any Supplemental Indenture or under the Master Project Lease shall not permit acceleration of payment dates as to any Authority Bonds then insured by any Bond Insurer.

Each and all of the remedies given to the Authority under the Master Project Lease or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege thereunder shall not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section shall include, but not be limited to, re-letting by means of the operation by the Authority of the Site and the improvements thereon. If any statute or rule of law validly shall limit the remedies given to the Authority under the Master Project

Lease, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Master Project Lease, the City will pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority thereunder, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

Waiver

Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Master Project Lease, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent under the Master Project Lease shall not be, or be construed to be, a waiver of any term, covenant or condition thereof.

Discharge of Obligations

(a) If the City shall pay or cause to be paid all the Additional Rental Payments and Base Rental Payments at the times and in the manner provided in the Master Project Lease, the right, title and interest of the Authority therein and the obligations of the City thereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in subsection (d).

(b) Any unpaid principal component of a Base Rental Payment shall on its scheduled payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the City makes payment of such Base Rental Payment in the manner provided in the Master Project Lease, and money for the purpose of such payment or prepayment is then held by the Trustee.

(c) All or any portion of any unpaid principal component of a Base Rental Payment shall, prior to its scheduled payment date or date of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the City shall remain liable for such Base Rental Payment, but only out of such money or securities deposited with the Trustee as described in the Master Project Lease for such payment) if (i) notice is provided to the Trustee as required by the Indenture or any Supplemental Indenture, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or securities defined in paragraphs (1) and (2) of the definition of Legal Investments which are not subject to redemption prior to maturity except by the holder thereof (including any such securities issued or held in book entry form) the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient, as stated in a report of a nationally recognized independent certified public accountant addressed to the City and the Trustee verifying such sufficiency in full, to pay when due such principal component of the Base Rental Payment or such portion thereof on and prior to its payment date or its date of prepayment, as the case may be, and the prepayment premium, if any, thereon, and (iii) an Opinion of Counsel addressed to the City and the Trustee is filed to the effect that the action taken pursuant to this subsection will not cause the interest components of the Base Rental Payments to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all Base Rental Payments and any applicable prepayment premiums as provided in this section, and payment of the fees and expenses of the Trustee, the Trustee, upon request of the City, shall cause an accounting to be made in accordance with standard corporate trust industry procedures and filed with the City and the Authority and shall execute and deliver to the City and the Authority all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over and deliver to the City, after payment of all fees, expenses and other amounts owed to the Trustee, as an overpayment of Base Rental Payments, all such money or investments held by it pursuant to the Master Project Lease other than such money and such investments as are required for the payment or prepayment of the Base Rental Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the Base Rental Payments and shall be applied by the Trustee pursuant to the Master Project Lease.

Binding Effect

The Master Project Lease shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns.

Net Lease

It is the purpose and intent of the Authority and the City that lease payments under the Master Project Lease shall be absolutely net to the Authority so that the Master Project Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Project, and without counterclaim, deduction, defense, deferment or set-off by the City except as specifically otherwise provided therein. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Master Project Lease except as expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Project which may arise or become due during the term of the Master Project Lease shall be paid by the City.

Amendments

The Master Project Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee; provided, that no such amendment other than amendments for the purposes contained in the succeeding paragraph shall be effective unless it shall have been consented to by the Holders of a majority of then Outstanding Bonds and by each Bond Insurer; and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Holder of each Bond so affected, or (b) reduce the percentage of Bonds the consent of the Holders of which is required for the execution of any amendment of the Master Project Lease.

The Master Project Lease and the rights and obligations of the Authority and the City thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the written consents of any Holders or the written approval of the Trustee or each Bond Insurer, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Master Project Lease other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case shall not adversely affect the interests of the Holders;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Master Project Lease or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent with the Master Project Lease, and which shall not adversely affect the interests of the Holders;

(c) to amend or supplement the Master Project Lease in such manner as to preserve the exemption of the Bonds from the registration requirements of the Securities Act of 1933 or any similar federal statute thereafter in effect or to permit the qualification of the Indenture or any Supplemental Indenture under the Trust Indenture Act of 1939 or any similar federal statute thereafter in effect;

(d) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion from gross income for federal income tax purposes under the Code of the interest on the Bonds;

(e) to make such amendments or supplements as may be necessary or appropriate to maintain any then current rating by any of the Rating Agencies on the Bonds; or

(f) to add or delete portions from the Project pursuant to the Master Project Lease and to extend or terminate the term thereof with respect to such additions to or deletions from the Project.

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Sacramento City Financing Authority
Sacramento, California

Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) and Sacramento City Financing Authority 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program)

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Sacramento City Financing Authority (the "Authority") in connection with issuance of $95,900,000 aggregate principal amount of Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) (the "Series A Bonds") and $55,235,000 Sacramento City Financing Authority 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program) (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds") pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the Government Code of the State of California, and all laws amendatory thereof or supplemental thereto (collectively, the "Act"), a resolution adopted by the Authority on May 23, 2006 (the "Resolution") authorizing the issuance, sale and delivery of the Bonds and the Indenture providing for the issuance of the Bonds dated as of June 1, 2006 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), for the purpose of enabling the Authority to acquire a certain local obligation of the City of Sacramento (the "City"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, certificates of the Authority, the City and the Trustee, opinions of counsel to the Authority, the City and the Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated June 1, 2006, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Authority. The Indenture creates a valid pledge of the Revenues for the payment of interest on and principal of the Bonds as and when they respectively become due in accordance with the terms of the Indenture.

3. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge, and are not a debt of the City. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

4. Interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Series A Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We observe that interest on the Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Sacramento (the "City") in connection with the issuance by the Sacramento City Financing Authority (the "Issuer") of $95,900,000 Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) and $55,235,000 Sacramento City Financing Authority 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program) (collectively, the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2006, by and between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") (the "Indenture"). The City and the Authority have entered into a Master Project Lease in connection therewith the City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission ("S.E.C.") Rule l5c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Central Post Office" means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

"Dissemination Agent" shall mean the City, acting in the capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, that has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be obtained at http://www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the official statement relating to the Bonds, dated June 1, 2006.

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

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

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

"State" shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the last day of the ninth month following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2005-2006 fiscal year, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City reserves the right to make this filing through the Central Post Office.

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

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

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

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

(a) The Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Government Accounting Standards Board. If the City's audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The Annual Budget of the City for the current fiscal year.

(c) An update of the information contained in the Tables entitled "STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE," "GROSS ASSESSED VALUES FOR ALL TAXABLE PROPERTY," "CITY OF SACRAMENTO LARGEST LOCAL SECURED TAXPAYERS" and "GENERAL FUND OBLIGATION DEBT SERVICE" in the Official Statement substantially in the form of the tables by that name included in Appendix A to the Official Statement, for the most recently completed fiscal year.

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(d) The City reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the City.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees, and agents, harmless against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters, and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: June 15, 2006

CITY OF SACRAMENTO

By: ______________________________

City Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	City of Sacramento
Name of Bond Issue:	Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program) and Sacramento City Financing Authority 2006 Taxable Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program)
Date of Issuance:	June 15, 2006

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated as of June 15, 2006. [The City anticipates that the Annual Report will be filed by _______________].

Dated: ___________, 20___

CITY OF SACRAMENTO

By: ________________________________
City Treasurer

cc: The Bank of New York Trust Company, N.A.

APPENDIX G

BOOK ENTRY ONLY SYSTEM

General

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the applicable documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

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

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

Principal, premium, if any, and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

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

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

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

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

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

Discontinuance of DTC Services

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

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

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: | Policy Number:

Obligations: | Premium:

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

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

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

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

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

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

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

President | Secretary

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Effective Date: | Authorized Representative

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

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

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

Ambac Assurance Corporation

Robert J Genader

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)