

may experience an overall shortfall in projected revenues under the City's fiscal year 2008-09 budget, depending on the growth or decrease in other revenue sources. Future State Budgets could also be affected by changes in the State economy and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to the City's fiscal year 2008-09 budget. See "STATE OF CALIFORNIA BUDGET INFORMATION" herein.

Hazardous Substances

The City knows of no existing hazardous substances which require remedial action on or near the Leased Property. However, it is possible that such substances do currently or potentially exist and that the City is not aware of them. The City does not currently carry insurance covering the risk of hazardous substances. Owners and operators of real property may be required by law to remedy conditions of 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 the "Superfund Act," is the most well known and widely applicable of these laws, but State 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 substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. 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 and adversely affect the operations and finances of the City and/or the value of the Leased Property.

Investment of Funds

The Certificate Reserve Funds and all other funds held under the Trust Agreement are required to be invested in Permitted Investments as provided under the Trust Agreement. See APPENDIX B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Definitions of Certain Terms" for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement or the funds and accounts held by the City could have a material adverse affect on the source of payment for the 2008B Certificates and/or the financial condition of the City.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or that the State Legislature or the City Council will not enact legislation that will amend the laws of the State Constitution or the City Charter, respectively, in a manner that could result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITS ON TAXES AND APPROPRIATIONS."

CONSTITUTIONAL AND STATUTORY LIMITS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

Section 1(a) of Article XIII A 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 XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not

apply to (1) ad valorem taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A 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" ("Full Cash Value"). 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 may be 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 XIII A 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 that further amended Article XIII A. 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 reappraisal under Article XIII A. Another amendment permitted the State Legislature to allow a person over the age of 55 who meets certain criteria, or a "severely disabled homeowner", who sells his or her residence and buys or builds 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. Another amendment permitted the State Legislature to allow a person who is either 55 years of age or older, or who is "severely disabled," to transfer the old residence's assessed value to his or her new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of the old residence.

Another amendment permitted the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies, constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Article XIII B of the California Constitution

State and local government agencies in California are each subject to annual "appropriations limits" imposed by Article XIII B of the State Constitution ("Article XIII B"). Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are generally authorizations to spend "proceeds of taxes," which include all tax revenues, and the proceeds to the entity from (i) regulatory

licenses, user charges and other user fees to the extent that such proceeds exceed “the cost reasonably borne by that entity in providing the regulation, product, or service” (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations for debt service on indebtedness existing prior to the passage of Article XIII B, thereafter authorized by the voters, required to comply with certain mandates of courts or the federal government, or appropriations of revenue from other certain limited sources.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a city’s annual appropriations limit is based on the appropriations limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another or to a private entity. It may also be adjusted in the event an emergency is determined by the legislative body. If city revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, et seq. of the California Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. The City’s appropriation limit for fiscal year 2007-08 is \$ _____. It has been determined that \$ _____ of the City’s fiscal year 2007-08 budgeted appropriations is subject to the limitation.

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C 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 general fund, require a two-thirds vote. The voter approval requirements of Article XIII C reduce the flexibility of the City Council to deal with fiscal problems by raising revenue through new or extended or increased taxes, and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII D contains several new provisions making it generally more difficult for local agencies to levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks.

Article XIII D also contains several new provisions affecting a “fee” or “charge,” defined for purposes of Article XIII D to mean “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service.” All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) 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. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Article XIIC removes prohibitions and limitations on the initiative power in matters of any “local tax, assessment, fee or charge.” Consequently, the voters of the City could, by future initiative, repeal, reduce or place limitations on the ability of the City to increase any local tax, assessment, fee or charge. “Fees” and “charges,” are not defined in Article XIIC, and it is not clear whether the definitions of these terms in Article XIID (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIIC. If the Article XIID definitions are not held to limit the scope of Article XIIC initiative powers, then the Article XIIC initiative power may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIID that currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or place limitations on the ability of the City to increase local taxes, assessments, fees or charges.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination. The City imposes some taxes, assessments, fees and charges that could be affected by Proposition 218. [To date, Proposition 218 has not impacted the revenues that are available to the City to make the Base Rental Payments required pursuant to the Sublease.]

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. Beginning with fiscal year 2008–09, the State will be able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than 2 fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

Proposition 1A also prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005–06, if the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for

which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 62

A statutory initiative (“Proposition 62”) was adopted by State voters 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 voting in such election, (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 voting in such election, (3) restricts the use of revenues from a special tax to the purpose 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 XIII A, (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 voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4th 220 (1995) (the “Santa Clara decision”), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a “special tax,” as required by Proposition 62. The Santa Clara decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) (“*Woodlake*”), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. The California Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the “window period” of August 1, 1985 until November 5, 1986.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“*La Habra*”). In this case, the court held that a public agency’s continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

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. Since the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g., voter approval of taxes) are governed by the State Constitution. In the view of the City Attorney, Proposition 62 does not apply to charter cities such as the City.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218, Proposition 111 and Proposition 62 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 City General Fund revenues or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City. The State Supreme Court has held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes, and that the Constitutional prohibition against referenda on tax levies does not apply to initiatives.

STATE OF CALIFORNIA BUDGET INFORMATION

The following information concerning the State of California (the "State") has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the State budget is posted by the Office of the Legislative Analyst (the "LAO") at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.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 or timeliness of information posted there, and such information is not incorporated herein by these references.

Economic Conditions in California

Since early 2001, the State has faced a series of financial challenges, challenges that may continue for several years. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, rising unemployment levels and large stock market declines. The downturn resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall was attributable to a decline in personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment. See "Future State Budgets" below.

2008 Budget Act

On August 24, 2007 the Governor signed the State Budget Act for Fiscal Year 2007-08 (the "2008 Budget Act"). The 2008 Budget Act assumes a carryover balance from fiscal year 2006-07 of \$4.8 billion. The 2008 Budget Act projects \$102.3 billion in revenues for fiscal year 2007-08 and authorizes the expenditure of an equal amount, leaving the State General Fund with a year-end reserve of \$4.1 billion. Even though the expenditures authorized under the 2008 Budget Act do not exceed the projected revenues for fiscal year 2007-08, the State will still face operating shortfalls in both fiscal years 2008-09 and 2009-10. According to the LAO, the shortfall in future years is due to the fact that many of the State's solutions enacted in the 2008 Budget Act are one-time in nature. For example, the State

assumes \$1 billion in one-time revenues from the sale of EdFund, the State's nonprofit student loan guaranty agency, \$293 million in General Fund revenues from amended tribal gaming compacts and \$600 million in General Fund revenues due to the transfer from the State's tobacco securitization fund, which transfer was originally scheduled for fiscal years 2008-09 and 2009-10. In addition, due to the fluctuation in estimates of State revenues in fiscal year 2006-07, the 2008 Budget Act assumes no additional Proposition 98 funding for fiscal year 2006-07. If, however, the finalized revenue figures for fiscal year 2006-07 are higher than expected, the State will automatically owe a settle-up payment of approximately \$411 million for fiscal year 2006-07 Proposition 98 funding, which will be paid out of the State's reserve. The 2008 Budget Act also uses \$567 million of one-time and special fund monies to support fiscal year 2007-08 K-12 costs, which results in the State entering fiscal year 2008-09 with a large ongoing shortfall for K-12 education.

Certain of the features of the 2008 Budget Act affecting cities include the following:

1. The 2008 Budget Act suspends funding for California Work Opportunity Responsibility to Kids cost-of-living adjustments for one year and permanently delays for five months the annual State Supplemental Security Income/State Supplementary Program cost-of-living adjustments. The 2008 Budget Act also provides \$35.7 million for county-operated housing assistance programs for emancipated foster youth, of which \$10.5 million is available for reimbursement to counties for costs incurred in fiscal year 2006-07.

2. The 2008 Budget Act provides approximately \$14.3 billion from the General Fund for Medi-Cal expenditures. Approximately \$50.8 million (\$25.4 million from the General Fund) will be provided to county administrations to fund the costs incurred in connection with the implementation of new federal regulations under the Deficit Reduction Act of 2005.

3. Pursuant to Proposition 1A, the State is required to repay local agencies for previously unreimbursed State mandates. The 2008 Budget Act includes only reimbursements for mandates performed in fiscal year 2006-07 and delays the reimbursements for mandates to be performed in fiscal year 2007-08 until fiscal year 2008-09.

4. The 2008 Budget Act appropriates approximately \$4.2 billion for transportation programs, \$950 million of which will be allocated to cities and counties for local streets and roads.

Complete text of the 2007 Budget Act may be found at the website of the Department of Finance (www.dof.ca.gov), under the heading "California Budget." Information on the website is not incorporated herein by reference.

Proposed 2008-09 Governor's Budget

The 2008-09 Governor's Budget, released on January 10, 2008 projects to end fiscal year 2008-09 with a \$2.8 billion total reserve. General Fund revenues and transfers for fiscal year 2008-09 are projected at \$102.9 billion, an increase of \$1.7 billion compared with revised estimates for fiscal year 2007-08. General Fund expenditures for fiscal year 2008-09 are projected at \$101.0 billion, a decrease of \$2.4 billion, or 2.0 percent compared with the revised estimates for 2007-08.

The 2008-09 Governor's Budget has the following major components:

1. **Budget Balancing Reductions** — The 2008-09 Governor's Budget proposes budget-balancing reductions of \$216.6 million in 2007-08 and \$9.1 billion in 2008-09 to close the \$14.5 billion budget gap. The 10 percent across-the-board reductions applies to all General Fund departments and

programs, Boards, Commissions, and elected offices including the legislative and judicial branches except where such a reduction is in conflict with the State constitution or impractical. Many of the reductions require implementation as early as March 1, 2008 in order to achieve a full 10 percent reduction in 2008-09.

2. Cash Flow Management — The deterioration of the budget reserve in the current year has resulted in a projected cash shortage in July and August 2008. In order to manage cash flow for current and budget years and ensure timely payments of the State's debts, the 2008-09 Governor's Budget proposes cash management solutions totaling \$8.7 billion (\$4.2 billion in 2007-08 and \$4.5 billion in 2008-09). These include selling \$3.313 billion of Economic Recovery Bonds by the end of February 2008 to help current year cash flow and, among other solutions, delaying disbursement of deferred apportionments for K-12 schools and community colleges to achieve \$1.3 billion savings.

3. Proposition 98 — The Proposition 98 Guarantee for 2008-09 is projected to grow to \$59.7 billion. The General Fund portion would be \$43.6 billion of total Proposition 98 funding. However, as part of the budget-balancing reductions proposed by the Administration, Proposition 98 General Fund will be reduced by 9.2 percent to \$39.6 billion. Thus, the Administration proposes to suspend the Proposition 98 Guarantee by \$4 billion in 2008-09.

4. K-12 Education — The 2008-09 Governor's Budget includes \$65.1 billion after budget-balancing reductions (\$39.4 billion General Fund and \$25.7 billion other funds) for K-12 education programs. This reflects a decrease of \$900 million or 1.4 percent below the revised 2007-08 budget. Absent the budget-balancing reductions, the budget for K-12 education programs would have increased by \$3.8 billion to \$69.8 billion in 2008-09 or 5.8 percent above the revised 2007-08 estimate. Total per-pupil expenditures are projected to decrease by \$309 to \$11,626 in 2008-09, which includes funds for prior year settle-up obligations.

5. Higher Education — The 2008-09 Governor's Budget reflects a total funding of \$20.5 billion, including \$13.9 billion General Fund and Proposition 98 sources for all major segments of Higher Education (excluding infrastructure and stem cell research) after budget-balancing reductions and other policy reductions. This reflects an increase of \$410.2 million (including \$90.6 million General Fund and Proposition 98 sources) above the revised 2007-08 estimate.

6. Health and Human Services — The 2008-09 Governor's Budget includes \$29.3 billion General Fund for Health and Human Service Programs after budget-balancing reductions, which is a decrease of \$279 million or 1.0 percent below the revised 2007-08 estimate. The 2008-09 Governor's Budget includes \$27.1 million in General Fund expenditure increases in Health and Human Services programs due to policy adjustments.

7. Transportation Funding - The 2008-09 Governor's Budget includes \$1.485 billion to fully fund Proposition 42 in 2008-09. Proposition 1A was passed in November 2006 and provides for the repayment of any remaining Proposition 42 debt by the year 2015-16. Pursuant to Proposition 1A, the 2008-09 Governor's Budget repays \$83 million from the 2003-04 and 2004-05 Proposition 42 suspensions. Because the issuance of tribal gaming bonds continues to be delayed, the Governor's Budget proposes to use the \$100 million in tribal gaming compact revenues that will be received in 2007-08 and 2008-09 until the bonds are sold, to repay past loans made from the State Highway Account, the Traffic Congestion Relief Fund, and the Public Transportation Account ("PTA"). Proposition 1B was also passed in November 2006, providing \$19.925 billion in bonding authority for a total of 16 programs intended to address a broad range of transportation priorities including rehabilitation and expansion of highways, transit and transit security, port security, and air quality. The authority for the use of any bond funds must

be provided for in the Budget Act. The Governor's Budget proposes to appropriate \$4.7 billion in Proposition 1B funding.

LAO Assessment. The Legislative Analyst's Office (the "LAO") has released several reports which include their estimates and assessments of State budget acts and associated fiscal and economic projections. These include a report titled "Analysis of the 2008-09 Budget Bill: Perspectives and Issues" dated February 20, 2008. In the report, the LAO makes the following statements in "The State's Fiscal Picture" section:

"Primarily due to the continued deterioration of the State's revenue outlook, we project that the State's budget shortfall (prior to any corrective actions) has increased to about \$16 billion. Consequently, the reserve at the end of 2008-09 under the Governor's budget policies would be \$1.1 billion—\$1.6 billion less than forecasted by the administration. Despite achieving a positive reserve, we conclude that the administration's budget-balancing approach is fundamentally flawed. Its across-the-board reductions reflect little effort to prioritize and determine which state programs provide essential services or are most critical to California's future. In the absence of a credible plan that prioritizes state spending and revenues, we offer an alternative approach for the Legislature's consideration. By making more targeted reductions and adding ongoing revenue solutions, we believe this approach offers the Legislature a better foundation to begin crafting a 2008-09 budget that focuses on essential services."

Publications from the LAO can be read in full by accessing the LAO's website (www.lao.ca.gov) or by contacting the LAO at (916) 445-4656. Information on the website is not incorporated herein by reference.

Future State Budgets

State Treasurer's Report on State Debt. On October 1, 2007, the State Treasurer issued a report entitled "Looking Beyond the Horizon: Investment Planning for the 21st Century" (the "Treasurer's Report"), which provides a 20-year planning horizon and bifurcates the projected State General Fund spending between debt service payments and operating expenditures. According to the Treasurer's Report, the State has a structural budget deficit that could grow up to \$14.6 billion, or an average annual revenue deficit of 3.5%, by Fiscal Year 2027-28. The Treasurer's Report proposes various measures to address the structural budget imbalance, including lessening the life-cycle costs of government facilities by increasing energy efficiency, reducing criminal recidivism, broadening the sales tax base by extending it to certain services, funding infrastructure development and operation through user-pays financing and financing transportation infrastructure with revenue bonds.

Impact of Future State Budgets on the City. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address future State budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

FINANCIAL STATEMENTS

The audited basic financial statements (the "Financial Statements") of the City for the year ended June 30, 2007, included in APPENDIX A – "AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2007," have been examined by _____, Certified Public Accountants (the "Auditor"), to the extent and for the period indicated in its report (the "Report"), which also appears in APPENDIX A. The Financial Statements and the Report should be read in their entirety.

The Financial Statements and Report for the year ended June 30, 2007 and the AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2007 for prior years are on file for public inspection with the City Clerk. [The City has not requested nor received the consent of the Auditor to the reproduction of its Report in APPENDIX A – “AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2007.”] The Auditor has not reviewed or expressed any opinion regarding any portion of this Official Statement other than the Financial Statements as stated in the Report.

TAX MATTERS

In the opinion of Special Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Trust Agreement, the Sublease and other documents relating to the 2008B Certificates and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the 2008B Certificates and the timely payment of certain investment earnings to the United States, the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is not includable in the gross income of the Owners of the 2008B Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates to be included in gross income retroactively to the date of execution and delivery of the 2008B Certificates.

In the further opinion of Special Counsel, the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each Base Rental Payment, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on or with respect to, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Special Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2008B Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Sublease or other documents pertaining to the 2008B Certificates may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Special Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Special Counsel.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of execution and delivery of

the 2008B Certificates will not have an adverse effect on the tax-exempt status of the 2008B Certificates. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market prices of the 2008B Certificates.

In the further opinion of Special Counsel, the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is exempt from personal income taxes imposed by the State.

[Original Issue Discount]

[The excess, if any, of the amount payable at maturity of any maturity of the 2008B Certificates purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of 2008B Certificates with original issue discount (a, the "Discount Certificate") is excluded from gross income for federal, State and City income tax purposes to the same extent as interest on the 2008B Certificates. In general, the issue price of a maturity of 2008B Certificates is the first price at which a substantial amount of 2008B Certificates of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers), and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Certificate is increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Certificate for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Certificate that is a corporation is included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Certificate is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of a Discount Certificate should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Certificate has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Certificate that is not purchased in the initial public offering at the first price at which a substantial amount of such substantially identical 2008B Certificates is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Certificate should consult his or her tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Certificate and with respect to state and local tax consequences of owning and disposing of such Discount Certificate.]

[Original Issue Premium]

[Certain of the 2008B Certificates may be purchased in the initial offering for an amount in excess of their principal amount (the "Premium Certificates"). The excess of the tax basis of a purchaser of a Premium Certificate (other than a purchaser who holds a Premium Certificate as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Certificate is "certificate premium." Certificate premium is amortized for federal income tax purposes over the term of a Premium Certificate based on the purchaser's yield to maturity in the Premium Certificate, except that in the case of a Premium Certificate callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Certificate. Owners of a Premium Certificate is required

to decrease his or her adjusted basis in such Premium Certificate by the amount of certificate premium attributable to each taxable year in which such purchaser holds such Premium Certificate. The amount of certificate premium attributable to a taxable year is not deductible for federal income tax purposes; however, certificate premium is treated as an offset to qualified stated interest received on a Premium Certificate. Purchasers of Premium Certificate should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of certificate premium attributable to each taxable year and the effect of certificate premium on the sale or other disposition of a Premium Certificate, and with respect to the state and local tax consequences of owning and disposing of a Premium Certificate.]

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest with respect to the 2008B Certificates to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the 2008B Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax-exempt status of such interest. On November 5, 2007, the United States Supreme Court heard oral argument in connection with its review of a decision of the Court of Appeals of Kentucky which held that the Commerce Clause in the United States Constitution prohibits the Commonwealth of Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State of California to eliminate disparity between the tax treatment of out-of-state bonds, notes and other obligations and the tax treatment of in-state bonds, notes and other obligations, including bonds, notes or other obligations issued by the City. The impact of this decision may also affect the market price for, or the marketability of, the 2008B Certificates.

Prospective purchasers of the 2008B Certificates should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Special Counsel expresses no opinion.

A copy of the proposed form of opinion of Special Counsel is attached hereto as APPENDIX C – “PROPOSED FORM OF OPINION OF SPECIAL COUNSEL.”

APPROVAL OF LEGALITY

Legal matters incident to the execution and delivery of the 2008B Certificates are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Special Counsel. A form of such opinion is attached hereto in APPENDIX C – “PROPOSED FORM OF OPINION OF SPECIAL COUNSEL,” and copies of such opinion with respect to the 2008B Certificates will be available at the time of delivery of the 2008B Certificates. Certain legal matters will be passed upon for the City by the City Attorney and by Sidley Austin LLP, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California, Underwriter’s Counsel.

LITIGATION

There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of the City, threatened against or affecting the City: (i) which would materially and adversely impact the City’s ability to complete the transactions described in or contemplated by this Official Statement; (ii) to restrain or enjoin the delivery of any of the 2008 Certificates or the payments to be made by the City pursuant to the Sublease; (iii) in any way contesting or affecting the validity of the Trust Agreement, the Sublease, any of the 2008 Certificates or the transactions relating to the Leased Property as described in “THE LEASED PROPERTY,” or contesting in any way the completeness or accuracy of this Official Statement; or (iv) wherein an unfavorable decision, ruling or finding would materially and adversely affect the City or the validity or enforceability of the Trust Agreement, the Sublease or the 2008 Certificates.

A number of suits and claims are pending against the City and related entities. In the opinion of the City, the results of such legal activities will not have a material adverse effect on the financial position or results of operations of the City or such entities.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement to be entered into simultaneously with the delivery of the 2008B Certificates (the “Continuing Disclosure Agreement”), between the City and the Trustee, the City has covenanted for the benefit of the holders and beneficial owners of the 2008B Certificates to provide certain financial information and operating data relating to the City by not later than 185 days following the end of the City’s fiscal year (which fiscal year presently ends on June 30) (the “Annual Report”), commencing with the report for fiscal year ended June 30, 2008, 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. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board or the Nationally Recognized Municipal Securities Information Repositories. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT” herein. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). [The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.]

RATINGS

S&P and Fitch Ratings (each, a “Rating Agency” and collectively, the “Rating Agencies”) are expected to assign the 2008B Certificates the ratings of “_____” and “_____,” respectively. [The ratings are based on the issuance of the Insurance Policy by the Insurer. See “CERTIFICATE INSURANCE”

herein. Additionally, S&P and Fitch Ratings are expected to assign the 2008B Certificates the ratings of “___” and “___,” respectively, without consideration of the issuance of the Insurance Policy by the Insurer.]

Such ratings express only the views of the Rating Agencies and are not a recommendation to buy, sell or hold the 2008B Certificates. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the respective Rating Agency, if in the judgment of such Rating Agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the 2008B Certificates.

UNDERWRITING

The 2008B Certificates are being purchased for reoffering by Banc of America Securities LLC (the “Underwriter”). The Underwriter has agreed to purchase the 2008B Certificates at a purchase price of \$_____ (representing the principal amount of the 2008B Certificates of \$_____, less an Underwriter’s discount of \$_____ and [less/plus] a net original [discount/premium] of \$_____). The Underwriter will purchase all of the 2008B Certificates if any are purchased. The obligations of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase relating to the 2008B Certificates.

EXECUTION AND DELIVERY

The preparation, execution and distribution of this Official Statement have been authorized by the City.

CITY OF PASADENA

By: _____

Stephen C. Stark
Director of Finance

APPENDIX A

**AUDITED BASIC FINANCIAL STATEMENTS OF
THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2007**

APPENDIX B
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX C

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

____, 2008

City of Pasadena
Pasadena, California

§ _____
Refunding Certificates of Participation, Series 2008B
Evidencing and Representing Proportionate, Undivided
Interests of the Owners Thereof in Base Rental Payments to
be Made by the
CITY OF PASADENA, CALIFORNIA

Ladies and Gentlemen:

We have acted as special counsel to the City of Pasadena, a municipal corporation duly organized and existing under its charter and the Constitution and laws of the State of California (the "City"), in connection with the execution and delivery of \$ _____ Refunding Certificates of Participation, Series 2008B (the "2008B Certificates"), evidencing and representing proportionate, undivided interests of the owners thereof in Base Rental Payments to be made by the City under and pursuant to that certain Amended and Restated Sublease, dated as of January 1, 2003 (the "2003 Sublease"), by and between the Pasadena Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority") and the City, as amended and supplemented by Supplement No. 1 to the Amended and Restated Sublease, dated as of March 1, 2004 ("Supplement No. 1 to Sublease"), Supplement No. 2 to Amended and Restated Sublease, dated as of September 1, 2006 ("Supplement No. 2 to Sublease"), Supplement No. 3 to Amended and Restated Sublease, dated as of _____ 1, 2008 ("Supplement No. 3 to Sublease") and Supplement No. 4 to Amended and Restated Sublease, dated as of _____ 1, 2008 ("Supplement No. 4 to Sublease" and together with the 2003 Sublease, Supplement No. 1 to the Sublease, Supplement No. 2 to the Sublease and Supplement No. 3 to the Sublease, the "Sublease"), for the lease of certain of certain real property and improvements (the "Leased Property") by Authority to the City. The Leased Property has been leased by the City to the Authority pursuant to an Amended and Restated Lease, dated as of January 1, 2003 (the "2003 Lease"), by and between the Authority and the City, as amended and supplemented by Supplement No. 1 to Amended and Restated Lease, dated as of January 1, 2004 ("Supplement No. 1 to Lease"), Supplement No. 2 to Amended and Restated Lease, dated as of September 1, 2006 ("Supplement No. 2 to Lease"), Supplement No. 3 to Amended and Restated Lease, dated as of _____ 1, 2008 ("Supplement No. 3 to Lease") and Supplement No. 4 to Amended and Restated Lease, dated as of _____ 1, 2008 ("Supplement No. 4 to Lease" and together with the 2003 Lease, Supplement No. 1 to Lease, Supplement No. 2 to Lease and Supplement No. 3 to Lease, the "Lease") for the purpose of leasing such Leased Property back from the Authority pursuant to the Sublease.

The Authority's rights to receive Base Rental Payments under the Sublease have been assigned without recourse by the Authority to The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), pursuant to the Amended and Restated Assignment Agreement, dated as of January 1, 2003, by and between the Trustee and the Authority. The 2008B Certificates have been executed and delivered pursuant to the Amended and Restated Trust Agreement, dated as of January 1, 2003 (the "2003 Trust

Agreement”), by and among the Trustee, the Authority and the City, as amended and supplemented by the First Supplemental Trust Agreement, dated as of March 1, 2004 (the “First Supplemental Trust Agreement”), the Second Supplemental Trust Agreement dated as of September 1, 2006 (“Second Supplemental Trust Agreement”), the Third Supplemental Trust Agreement dated as of _____ 1, 2008 (“Third Supplemental Trust Agreement”) and the Fourth Supplemental Trust Agreement dated as of _____ 1, 2008 (“Fourth Supplemental Trust Agreement” and together with the 2003 Trust Agreement, the First Supplemental Trust Agreement, the Second Supplemental Trust Agreement and the Third Supplemental Trust Agreement, the “Trust Agreement”).

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the 2008B Certificates and such other documents and records of the City as we have deemed necessary for the purpose of this opinion. Our services as special counsel were limited to such examination and to rendering the opinions set forth below. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement and the Sublease, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the portion of each Base Rental Payment designated as and imposing interest with respect to the 2008B Certificates to be included in gross income for federal income tax purposes.

Based upon the foregoing, in our opinion, such proceedings show lawful authority for the execution and delivery by the Authority and the City of the Trust Agreement, the Lease and the Sublease under the laws of the State of California now in force, and the Trust Agreement, the Lease and the Sublease have been duly authorized, executed and delivered by the Authority and the City and, assuming due authorization, execution and delivery of the Trust Agreement by the Trustee, are valid and binding obligations of the Authority and the City, enforceable against the Authority and the City in accordance with their respective terms. The 2008B Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the City to make the Base Rental Payments under the Sublease does not constitute a debt of the City or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

We are further of the opinion, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the City with certain covenants in the Trust Agreement and Sublease and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of Certificate proceeds and the timely payment of certain investment earnings to the United States, that the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is excludable from the gross income of the owners of the 2008B Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Base Rental Payment designated as and comprising interest with respect to the 2008B Certificates to be included in federal gross income retroactive to the date of execution and delivery of the 2008B Certificates.

We are also of the opinion that the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each Base Rental Payment, however, will be included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability. We express no opinion regarding other federal income

tax consequences caused by the ownership of, or the receipt of interest with respect to, the 2008B Certificates. Further, we express no opinion as to the effect of any change to any document pertaining to the 2008B Certificates or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest with respect to the 2008B Certificates for federal income tax purposes.

We are additionally of the opinion that the portion of each Base Rental Payment due under the Sublease designated as and comprising interest with respect to the 2008B Certificates is exempt from personal income taxes imposed by the State of California.

With respect to the opinions expressed herein, the rights and obligations under the 2008B Certificates, the Trust Agreement, the Lease and the Sublease are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of forum or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this Appendix D has been provided by The Depository Trust Company (“DTC”), New York, New York, for use in securities offering documents, and City takes no responsibility for the accuracy or completeness thereof the City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the 2008B Certificates or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2008B Certificates, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. DTC will act as securities depository for the 2008B Certificates (the “Securities”). The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Security certificate will be issued for the Securities, in the aggregate principal amount of the Securities, and will be deposited with DTC.

2. 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

8. Prepayment proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under

such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

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

APPENDIX E
FORM OF CONTINUING DISCLOSURE AGREEMENT

[APPENDIX F]
[SPECIMEN INSURANCE POLICY]