

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the 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 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" herein.



\$23,000,000

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
VARIABLE RATE DEMAND REVENUE BONDS, SERIES 2005
(AIR FORCE VILLAGE WEST, INC.)**

Dated: Date of Issuance

CUSIP: 00037C GP9

Price: 100%

Due: May 15, 2035

The ABAG Finance Authority for Nonprofit Corporations (the "Authority"), a joint exercise of powers authority duly organized and existing under the laws of the State of California, will issue the above-referenced Bonds (the "Bonds") pursuant to an Indenture dated as of April 1, 2005 (the "Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds shall bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, Dutch-Auction Rate, Term Rate or Fixed Rate as determined in accordance with the Indenture. Initially, the Bonds shall bear interest at the Weekly Rate. While in the Weekly Rate, interest on the Bonds shall be payable on the first Business Day of each month, commencing May 2, 2005. The Bonds are special limited obligations of the Authority payable solely from, and are secured by, payments to be received by the Trustee (as assignee of the Authority) under a Loan Agreement (the "Loan Agreement") between the Authority and Air Force Village West, Inc. (the "Corporation") and from Bond proceeds and other moneys pledged to or held by the Trustee under the Indenture for such purposes. Payments of the principal of, interest on and the purchase price of tendered Bonds in the event and to the extent not remarketed by the Remarketing Agent (as defined herein) will initially be funded by draws made by the Trustee under an irrevocable direct pay letter of credit (the "Initial Letter of Credit") to be issued by

KBC Bank N.V., New York Branch

(the "Bank") concurrently with the issuance of the Bonds. The Initial Letter of Credit will expire on April 15, 2008, unless extended or terminated sooner in accordance with the terms thereof.

The Bonds are subject to optional redemption and extraordinary optional redemption (while in the Term Mode or the Fixed Rate Mode) prior to maturity as described herein.

The interest rate mode for the Bonds is subject to conversion as described herein, in which case the Bonds will be subject to mandatory tender for purchase as described herein.

The Bonds are issuable as registered Bonds, and while in the Daily Mode, Weekly Mode or Commercial Paper Mode, shall be in the minimum denomination of \$100,000 and any integral multiple of \$5,000 in excess thereof, and upon conversion to a Term Mode or the Fixed Rate Mode, in the minimum denomination of \$5,000 and any integral multiple thereof, and when in a Dutch-Auction Mode, in the minimum denomination of \$25,000 and integral multiples thereof. The Bonds will be registered in the name of Cede & Co. as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. The principal of and the premium, if any, on the Bonds will be payable to the registered owner at the designated corporate trust office of the Trustee. Interest on the Bonds will be payable by check mailed on the applicable Interest Payment Date to the registered owner, provided that, at the request of the registered owner of at least \$1,000,000 aggregate principal amount of the Bonds, interest on such Bonds shall be paid by wire transfer within the continental United States in immediately available funds. Principal, redemption price and purchase price of Bonds, at the written request of the registered owner of at least \$1,000,000 aggregate principal amount of Bonds, will be paid by wire transfer within the continental United States in immediately available funds.

THE BONDS, THE INTEREST THEREON AND THE PURCHASE PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), NOR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, THE PURCHASE PRICE THEREOF AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Because the Bonds are secured by the Initial Letter of Credit, this Official Statement does not contain information relating to the Corporation or its ability to make payments sufficient to pay the principal and purchase price of and interest on the Bonds. The investment decision to purchase the Bonds should be made solely on the basis of the creditworthiness of the Bank, which is issuing the Initial Letter of Credit from which all principal and purchase price of and interest on the Bonds will be paid.

The Bonds are offered when, as and if issued by the Authority, subject to prior sale, withdrawal or modification of the offer without any notice and to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its special counsel, Nixon Peabody LLP, San Francisco, California, for the Corporation by its counsel, Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, for the Bank, with respect to the Initial Letter of Credit described herein, by its counsel, Ballard, Spahr, Andrews & Ingersoll, Philadelphia, Pennsylvania and its Belgian counsel, Linklaters De Bandt, Brussels, Belgium, and for the Underwriter by its counsel, Holland & Knight LLP, San Francisco, California. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about April 14, 2005 in New York, New York.

CAIN BROTHERS

No dealer, broker, salesperson or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”), Air Force Village West, Inc. (the “Corporation”), or Cain Brothers & Company, LLC (the “Underwriter”) to give any information or to make any representations with respect to the Bonds, other than those 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. This Official Statement does not offer to sell or ask for offers to buy any of the Bonds in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot be legally offered the Bonds. The information set forth herein has been obtained from the Corporation and other sources that are believed to be reliable, including the Authority but only with respect to the information under the captions “**THE AUTHORITY**” and “**LITIGATION – The Authority,**” and the Bank but only with respect to the information under the captions “**LIQUIDITY FACILITY AND REIMBURSEMENT AGREEMENT**” and “**BANK**”, but the Underwriter does not guarantee the accuracy or completeness of the information, and the information is not to be construed as a representation by the Underwriter. Except with respect to the information under the captions “**THE AUTHORITY**” and “**LITIGATION – The Authority,**” the information contained herein is not to be construed as a representation by the Authority. 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 matters described herein since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF CERTAIN STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT SUMMARY

The following is a summary of certain information contained in this Official Statement, to which reference should be made for a complete statement thereof. The Bonds are offered to potential investors only by means of the entire Official Statement, including the cover page, this Summary and the **APPENDICES** to the Official Statement. No person is authorized to detach this Summary from the Official Statement or otherwise use it without the entire Official Statement, including the cover page, this Summary and the **APPENDICES**.

The Authority

The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS, THE INTEREST THEREON AND THE PURCHASE PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”), NOR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, THE PURCHASE PRICE THEREOF AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Corporation

Air Force Village West, Inc. (the “Corporation”) is a California nonprofit public benefit corporation, which was established in 1984 for the purpose of providing a continuing care retirement community to retired military officers and their spouses or surviving spouses. Since its formation, the Corporation has expanded the resident eligibility criteria to include retired or honorably separated officers of the United States uniformed services, their widows, widowers and qualified dependents. The uniformed services include the Army, Navy, Marine

Corps, Air Force, Coast Guard, Public Health and National Oceanographic and Atmospheric Administrations.

The Corporation owns and operates a continuing care retirement community (the “Facilities”), located in Riverside County, currently consisting of 405 independent living units, including 232 single family homes, 70 duplexes, and 103 independent apartment units, 46 assisted living units, 20 special care units for residents with dementia, and 59 skilled nursing beds. The site of the Facilities consists of 153 acres of land acquired at minimal cost from the United States Air Force by a special act of Congress. It is adjacent to March Air Force Reserve Base and a public golf course that was originally built for the Base.

The project for which proceeds of the Bonds will be expended includes the construction of 35 cottages, 15 one bedroom assisted living units, 20 special care units, and various renovations and improvements to the existing Facilities.

The Trustee

U.S. Bank National Association will serve as the Trustee under the Indenture.

The Initial Letter of Credit and the Bank

Payments of principal of and interest as well as the purchase price of tendered Bonds in the event and to the extent not remarketed by the Remarketing Agent (as defined herein) will initially be funded by draws made by the Trustee under, and subject to compliance with, the terms of, a direct pay irrevocable letter of credit (the “Initial Letter of Credit”) to be issued by KBC Bank N.V., New York Branch (the “Bank”) pursuant to a Reimbursement, Credit and Security Agreement dated as of April 1, 2005 (the “Reimbursement Agreement”) between the Bank and the Corporation. The Initial Letter of Credit will expire on April 15, 2008, unless extended or terminated sooner in accordance with the terms thereof.

The Bonds and the Project

The Bonds are issued under and secured by an Indenture dated as of April 1, 2005 (the “Indenture”) between the Authority and the Trustee. The proceeds of the sale of the Bonds will be used to finance (a) certain capital expenditures to be incurred by the Corporation, (b) reimbursement of the Corporation for certain capital expenditures previously incurred for the Facilities, and (c) the payment of all or a portion of the costs of issuance of the Bonds, including, without limitation, costs of obtaining credit enhancement and liquidity support for the Bonds (collectively, the “Project”).

The Bonds, as initially issued in the Weekly Mode, are offered in authorized denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. The Bonds are being offered at the purchase price set forth on the front cover of this Official Statement.

The Depository Trust Company (“DTC”) will act as securities depository for the Bonds, and the Bonds will be registered in the name of Cede & Co., as registered owner and nominee for DTC. Individual purchases of Bonds will be made in book-entry form. So long as Cede & Co. or any successor nominee of DTC is the registered owner of the Bonds, references

herein to the Bondholders, Holders, owners or registered owners shall mean Cede & Co., or such successor nominee, and shall not mean the Beneficial Owners of the Bonds. Principal of and interest on the Bonds are payable by the Trustee to Cede & Co., as nominee for DTC, which will in turn, remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners. (See **“BOOK-ENTRY-ONLY SYSTEM”** herein.)

Security for Bonds

The Bonds are limited obligations of the Authority payable from pledged revenues and other moneys held for that purpose under the Indenture, including payments to be received by the Authority under a Loan Agreement dated as of April 1, 2005 (the “Loan Agreement”) between the Authority and the Corporation.

The Trustee can draw upon the Initial Letter of Credit and any renewal or replacement letters of credit to pay the principal of, interest on or any purchase price of the Bonds.

Because the Bonds are secured by the Initial Letter of Credit, this Official Statement does not contain information relating to the Corporation or its ability to make payments sufficient to pay the principal and purchase price of and interest on the Bonds. The investment decision to purchase the Bonds should be made solely on the basis of the creditworthiness of the Bank, which is issuing the Initial Letter of Credit from which all principal and purchase price of and interest on the Bonds will be paid.

Redemption and Purchase Provisions

The Bonds are subject to optional and extraordinary redemption and optional and mandatory purchase as set forth herein (see **“THE BONDS – Redemption Prior to Maturity,” “THE BONDS – Tender for Purchase of Bonds on Demand of Owners”** and **“THE BONDS – Mandatory Tender for Purchase of Bonds”** herein.)

Conversion to Daily Mode, Commercial Paper Mode, Term Mode, Fixed Rate Mode or Dutch-Auction Mode

The Bonds shall be initially issued in a Weekly Mode. At the times specified herein, the Corporation may convert all or a portion of the Bonds to a Daily Mode, Commercial Paper Mode, Term Mode, Fixed Rate Mode or Dutch-Auction Mode pursuant to the Indenture. All Bonds that are converted are subject to mandatory purchase on the date of such conversion of such Bonds.

Continuing Disclosure

Rule 15c2-12 (“Rule 15c2-12”) under the Securities Exchange Act of 1934, as amended, generally requires that “obligated persons” such as the Corporation provide (i) continuing disclosure on an annual basis of financial information and operating data and (ii) notices of certain specified events that could affect the credit underlying the payment obligations of municipal securities. Offerings of municipal securities that are issued in minimum denominations of \$100,000 and are subject to purchase on the demand of the holder, such as will

be the case with respect to the Bonds, while bearing interest in the Weekly Mode, are exempt from the requirements of Rule 15c2-12. If the Bonds are remarketed in the Term Mode, the Fixed Rate Mode or the Dutch-Auction Mode, the Corporation shall in the future become subject to the continuing disclosure obligations of Rule 15c2-12 with respect to the Bonds. The Corporation is currently obligated to provide such ongoing information with respect to the 1999 Certificates (as hereinafter defined). The Authority has no continuing disclosure obligation with respect to the Bonds.

Bondholders' Risks

AN INVESTMENT IN THE BONDS INVOLVES A CERTAIN DEGREE OF RISK. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ “**SECURITY AND SOURCES OF PAYMENT FOR BONDS**” and “**BONDHOLDERS' RISKS**” HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. See “**BONDHOLDERS' RISKS.**”

OFFICIAL STATEMENT

\$23,000,000

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS Variable Rate Demand Revenue Bonds, Series 2005 (Air Force Village West, Inc.)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, the table of contents page, the Official Statement Summary and the Appendices, is provided to furnish certain information with respect to \$23,000,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds, Series 2005 (Air Force Village West, Inc.) (the “Bonds”) being issued by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”). The Bonds are being issued under an Indenture dated as of April 1, 2005 (the “Indenture”) between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds will initially be dated the date of their first authentication and initial delivery to the initial purchasers thereof. The Bonds will mature on the date set forth on the cover hereof and will be subject to redemption prior to maturity as described herein under **“THE BONDS – Redemption Prior to Maturity.”** Unless otherwise set forth herein, capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

The Riverside County Public Financing Authority has previously authorized \$62,790,000 Revenue Certificates of Participation Series 1999 (Air Force Village West) (the “1999 Certificates”), which were executed and delivered for the benefit of Air Force Village West, Inc. a California nonprofit public benefit corporation (the “Corporation”). The outstanding in the aggregate principal amount of the 1999 Certificates was \$58,120,000 as of April 1, 2005.

The Authority will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement dated as of April 1, 2005 (the “Loan Agreement”), between the Authority and the Corporation. Pursuant to the Loan Agreement, the Authority will lend the proceeds of the Bonds to the Corporation for the purpose of paying the costs of the Project (as defined below), and the Corporation will agree to make loan payments sufficient, in the aggregate, to pay the principal and purchase price of, premium, if any, and interest on the Bonds. Pursuant to the Indenture, the Authority will assign and pledge to the Trustee all of its rights and interests under the Loan Agreement (except for certain Unassigned Rights, as defined therein).

The proceeds of the sale of the Bonds will be used to finance (a) certain capital expenditures to be incurred by the Corporation for the Facilities (as defined below), (b) reimbursement of the Corporation for certain capital expenditures previously incurred for the Facilities, and (c) the payment of all or a portion of the costs of issuance of the Bonds, including, without limitation, costs of obtaining credit enhancement and liquidity support for the Bonds (collectively, the “Project”).

The Bonds are limited obligations of the Authority, and the principal and purchase price thereof and premium, if any, and interest thereon will be payable solely from the

revenues and other moneys assigned and pledged by the Indenture to secure such payment including (i) the loan payments required to be made by the Corporation under the Loan Agreement, (ii) moneys and investments held by the Trustee in certain funds established under the Indenture, and (iii) all future and present Revenues, which includes moneys paid to the Trustee under any Liquidity Facility (as hereinafter defined).

In addition, pursuant to a letter of credit (the "Letter of Credit" and, together with any other letter of credit, any municipal bond insurance policy or other form of credit enhancement for the Bonds which provides for payment of principal of and interest on the Bonds in the event of default, and, if a letter of credit, payment of principal of and interest on the Bonds on each Interest Payment Date, including any Alternate Credit Facility, a "Credit Facility") the payment of all scheduled principal and interest due on the Bonds shall be paid with the proceeds of draws made by the Trustee under, and subject to compliance with the terms of, initially, a direct pay irrevocable letter of credit (the "Initial Letter of Credit") to be issued by KBC Bank N.V., New York Branch (the "Bank") or any future issuer of a Credit Facility (each, a "Credit Provider"). Purchases of tendered Bonds in the event and to the extent not remarketed by the Remarketing Agent (as defined herein) will be funded with the proceeds of draws made by the Trustee under, and subject to compliance with the terms of a letter of credit (a "Liquidity Facility"), initially, the Initial Letter of Credit to be issued by the Bank or any future issuer of a Liquidity Facility (each, a "Liquidity Provider"). The Initial Letter of Credit will expire on April 15, 2008, unless extended or terminated sooner in accordance with the terms thereof.

The Bonds are being offered based on the financial strength of the Bank and any subsequent Liquidity Providers and Credit Providers.

For further information generally concerning the security for the Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR BONDS" herein.

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PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Bonds shall initially be in a Weekly Mode and while in the Weekly Mode, shall bear interest at a Weekly Rate, subject to conversion to a Daily Rate, Commercial Paper Rate, Term Rate, Fixed Rate or Dutch-Auction Rate. All Bonds need not be in the same Rate Mode, subject to the requirements of the Indenture.

While the Bonds are in the Daily Mode or Weekly Mode, upon compliance with certain conditions as described in the Indenture, Bonds (or portions thereof in Authorized Denominations) will be purchased upon the demand of the Owner thereof at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, which date of purchase shall be a Business Day selected by the Owner and, in the case of Bonds in a Weekly Mode, shall not be earlier than the seventh day after the date of delivery of an irrevocable Bondholder Tender Notice by the Owner to the Remarketing Agent, as herein described. (See **“THE BONDS – Tender for Purchase of Bonds on Demand of Owners”** herein.)

While the Bonds are in the Term Mode, upon compliance with certain conditions as described in the Indenture, Bonds (or portions thereof in Authorized Denominations) will be purchased upon the demand of the Owner thereof at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, which date of purchase shall be the last day of the current Interest Period applicable to such Bond (or the next Business Day if such last day is not a Business Day) and shall not be earlier than the seventh day after the date of delivery of an irrevocable Bondholder Tender Notice by the Owner to the Remarketing Agent and Trustee, as herein described. (See **“THE BONDS – Tender for Purchase of Bonds on Demand of Owners”** herein.)

The Bonds are not subject to optional tender for purchase while they are in a Commercial Paper Mode, Dutch-Auction Mode or a Fixed Rate Mode.

There follows herein brief descriptions of the Bonds, together with summaries of the Initial Liquidity Facility, the Initial Letter of Credit, the Loan Agreement and the Indenture. Limited information regarding the Corporation is included under **“THE CORPORATION”** herein. The description and summaries of the Initial Liquidity Facility, the Initial Letter of Credit, the Loan Agreement, the Indenture and other documents contained herein do not purport to be comprehensive and are qualified in their entirety by reference to such documents, and all references to the Bonds are qualified in their entirety by the definitive form thereof included in the Indenture. Words and terms defined in such documents and not defined herein shall have the meanings set forth in such documents. Copies of such documents will be available for inspection during the initial underwriting period at the offices of Cain Brothers & Company, LLC in San Francisco, California, Chicago, Illinois or New York, New York, and thereafter will be available for inspection at the corporate trust office of the Trustee in Los Angeles, California.

THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS, THE INTEREST THEREON AND THE PURCHASE PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”), NOR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, THE PURCHASE PRICE THEREOF AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Authority has not and will not assume any responsibility for the accuracy, completeness or fairness of the matters or representations contained in this Official Statement, except for the information described under the headings “**THE AUTHORITY**” and “**LITIGATION – The Authority.**”

THE CORPORATION

The Corporation is a California nonprofit public benefit corporation, which was established in 1984 for the purpose of providing a continuing care retirement community to retired military officers and their spouses or surviving spouses. Since its formation, the Corporation has expanded the resident eligibility criteria to include retired or honorably separated officers of the United States uniformed services, their widows, widowers and qualified dependents. The uniformed services include the Army, Navy, Marine Corps, Air Force, Coast Guard, Public Health and National Oceanographic and Atmospheric Administrations.

The Corporation owns and operates a continuing care retirement community (the “Facilities”), located in Riverside County, currently consisting of 405 independent living units,

including 232 single family homes, 70 duplexes, and 103 independent apartment units, 46 assisted living units, 20 special care units for residents with dementia, and 59 skilled nursing beds. The site of the Facilities consists of 153 acres of land acquired at minimal cost from the United States Air Force by a special act of Congress. It is adjacent to March Air Force Reserve Base and a public golf course that was originally built for the Base.

The project for which proceeds of the Bonds will be expended includes the construction of 35 cottages, 15 one bedroom assisted living units, 20 special care units, and various renovations and improvements to the existing Facilities.

PLAN OF FINANCING

The proceeds of the sale of the Bonds will be used to finance (a) certain capital expenditures to be incurred by the Corporation, (b) reimbursement of the Corporation for certain capital expenditures previously incurred for the Facilities, and (c) the payment of all or a portion of the costs of issuance of the Bonds, including, without limitation, costs of obtaining credit enhancement and liquidity support for the Bonds (collectively, the “Project”).

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are set forth below:

	Total
SOURCES OF FUNDS	
Par Amount	\$23,000,000
Corporation Contribution	4,973,398
<i>Total Sources</i>	\$27,973,398
USES OF FUNDS	
Capital Expenditures ⁽¹⁾	\$ 26,113,099
Capitalized Interest and Fees	1,209,791
Costs of Issuance ⁽²⁾	650,508
<i>Total Sources</i>	\$27,973,398

(1) For expenditures for the improvements to the Facilities.

(2) Includes Underwriter’s discount, Authority related fees, Trustee fees, legal fees and other fees and expenses relating to the issuance and sale of the Bonds, including Initial Letter of Credit fees.

THE BONDS

General

The Bonds will be dated and will bear interest from the date of their original issuance and delivery. The Bonds will mature, unless previously called for redemption, on May 15, 2035. The Bonds will be issued in the Weekly Mode and will initially bear interest at a Weekly Rate, as determined from time to time in the manner set forth herein. The Bonds will be issued only as fully registered Bonds without coupons and, while in the Daily Mode, Weekly Mode, or Commercial Paper Mode in the denomination of \$100,000 and any integral multiple of

\$5,000 in excess thereof, and upon conversion to a Term Mode or Fixed Rate Mode, in the denomination of \$5,000 and any integral multiple thereof, and while in the Dutch-Auction Mode, in the denomination of \$25,000 and any integral multiple thereof (in each case, as applicable, an “Authorized Denomination”).

The Bonds are subject to optional purchase on the following dates (each a “Purchase Date”): (a) with respect to Bonds in the Weekly Mode, on any Business Day designated by the Owner of such Bonds in an irrevocable written notice of tender or irrevocable telephonic notice of tender, confirmed in writing, given at least seven (7) days prior to the Purchase Date, as described herein under “Tender for Purchase of Bonds in Daily Mode or Weekly Mode on Demand of Owners; Tender for Purchase of Bonds in Term Mode at End of Interest Period on Demand of Owners”; (b) with respect to Bonds in the Daily Mode, on any Business Day upon delivery of an irrevocable telephonic notice of tender no later than 11:00 A.M. on the Purchase Date specified therein, as described herein under “Tender for Purchase of Bonds in Daily Mode or Weekly Mode on Demand of Owners; Tender for Purchase of Bonds in Term Mode at End of Interest Period on Demand of Owners”; and (c) with respect to Bonds in the Term Mode, on the last day of the current Interest Period applicable to such Bond (or the next Business Day if such last day is not a Business Day), upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender, confirmed in writing, given on a Business Day at least seven (7) days prior to such last day of the Interest Period, as described herein under “Tender for Purchase of Bonds in Daily Mode or Weekly Mode on Demand of Owners; Tender for Purchase of Bonds in Term Mode at End of Interest Period on Demand of Owners.” (See “**THE BONDS – Tender for Purchase of Bonds on Demand of Owners.**”)

The Bonds are subject to mandatory purchase on the following dates (each a “Mandatory Purchase Date”): (a) in the case of Bonds which are to be purchased upon conversion of such Bonds from one Rate Mode to another Rate Mode, on the applicable Conversion Date or proposed Conversion Date for such Bonds, (b) in the case of Bonds in a Commercial Paper Mode, on the last day of the Interest Period for such Bonds, (c) in the case of Bonds to be purchased in anticipation of the expiration or replacement of a Liquidity Facility or Credit Facility: (i) with respect to the expiration of a Liquidity Facility or Credit Facility, on the date (the “Expiration Tender Date”) which is the Interest Payment Date immediately preceding the expiration date of the Liquidity Facility or Credit Facility (as applicable) then in effect, provided that such Interest Payment Date is a Business Day and is not less than five days before such expiration date (or if such Interest Payment Date is not a Business Day or is less than five days before such expiration date, the Business Day preceding such Interest Payment Date that is at least five days prior to such expiration date) in the event such Liquidity Facility or Credit Facility (as applicable) shall not have been extended effective on or before such Interest Payment Date in accordance with the Indenture, or (ii) with respect to the replacement of a Liquidity Facility or Credit Facility, on the date of replacement of the Liquidity Facility or Credit Facility with an Alternate Liquidity Facility or Alternate Credit Facility (as applicable), or (iii) the date specified by the Trustee (i) if the Liquidity Facility then in effect is a letter of credit, within five (5) days of the Trustee’s receipt of written notice from the Liquidity Provider directing the Trustee to perform a special mandatory tender as provided in the Liquidity Facility, (ii) if a Liquidity Facility then in effect is a letter of credit, within five (5) days of the Trustee’s receipt of written notice from the Liquidity Provider that it will not reinstate the interest component of the Liquidity Facility, or (iii) if the Liquidity Facility then in effect is a standby bond purchase

agreement, there has occurred and is continuing a Termination Event (as defined in the Indenture) and the Liquidity Provider has exercised its option to terminate the Liquidity Facility (unless the Liquidity Facility terminates due to an Immediate Termination Event, in which case the Bonds will not be subject to mandatory tender for purchase), on the date specified by the Liquidity Provider in a written notice, and (d) in the case of Bonds to be purchased in anticipation of the provision or termination of a Liquidity Facility by the Corporation, on the effective date of the new Liquidity Facility or the termination of the existing Liquidity Facility (as applicable). (See “**THE BONDS – Mandatory Tender for Purchase of Bonds.**”)

Principal of and premium, if any, on the Bonds will be payable upon presentation and surrender of the Bonds at the designated corporate trust office of the Trustee. Principal and Purchase Price of and premium, if any, on the Bonds, at the written request of the Owner of at least \$1,000,000 aggregate principal amount of such Bonds will be paid by wire transfer within the continental United States in immediately available funds to the bank account number of such Owner appearing on the Bond Register, but only upon presentation and surrender of such Bonds. Interest on the Bonds will be paid on the applicable Interest Payment Date by check mailed to the Owners of Bonds shown as the registered Owners on the Bond Register at the close of business on the last day of the month (whether or not a Business Day) next preceding such Interest Payment Date for Bonds in a Daily Mode, on the day (whether or not a Business Day) next preceding such Interest Payment Date for Bonds in the Weekly Mode or the Commercial Paper Mode, the first (1st) day (whether or not a Business Day) of the month in which such Interest Payment Date occurs, for Bonds in a Term Mode or a Fixed Rate Mode, and as set forth in **APPENDIX B – “AUCTION PROVISIONS”** with respect to Bonds in a Dutch-Auction Mode (each, as applicable, a “Regular Record Date”). The interest becoming due on the Bonds shall, at the written request of the registered Owner of at least \$1,000,000 aggregate principal amount of such Bonds received by the Trustee at least one Business Day before the corresponding Regular Record Date or maturity, redemption or purchase date, be paid by wire transfer within the continental United States in immediately available funds to the bank account number of the registered owner specified in such request and entered by the Trustee on the Bond Register. (See “**BOOK-ENTRY-ONLY SYSTEM**” below.)

U.S. Bank National Association is Trustee under the Indenture. The Trustee shall act as registrar, paying agent, transfer agent and tender agent for the Bonds.

The Corporation has appointed Cain Brothers & Company, LLC, as the Underwriter (the “Underwriter”). The principal office of the Underwriter is located at 360 Madison Avenue, 5th Floor, New York, New York 10017. The Corporation has appointed Cain Brothers & Company, LLC, as remarketing agent (the “Remarketing Agent”).

Interest on Bonds

The Bonds initially shall be in a Weekly Mode and as such shall bear interest at a Weekly Rate, subject to conversion to a Daily Mode, Commercial Paper Mode, Term Mode, Fixed Rate Mode or Dutch-Auction Mode. Bonds need not be in the same Rate Mode, subject to the requirements of the Indenture. The Bonds may bear interest at Daily Rates, Weekly Rates, Commercial Paper Rates, Fixed Rates, Dutch-Auction Rates or Term Rates for periods selected from time to time by the Corporation and as set forth in the Indenture (“Interest Accrual

Periods”). With respect to a Bond in a Mode other than the Daily Mode, the Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of the original authentication and delivery of such Bond, or the Conversion Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Bond, interest is in default or overdue on the Bonds, such Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Bonds. With respect to Bonds in the Daily Mode, the Interest Accrual Period shall commence on (and include) the first day of each month and shall extend through (and include) the last day of such month; provided, that if such month is the month in which the Bonds are authenticated and delivered, or if the Bonds are changed to the Daily Mode during such month, the Interest Accrual Period shall commence on the date of authentication and delivery of the Bonds or the Conversion Date, as the case may be; provided further, that if no interest has been paid on Bonds in the Daily Mode, interest shall accrue from the date of original authentication and delivery of the Bonds or the Conversion Date, as appropriate. For a Bond in the Dutch-Auction Mode, see **APPENDIX B – “AUCTION PROVISIONS.”**

The Bonds are in the “Daily Mode” if they bear interest at a Daily Rate, in the “Weekly Mode” if they bear interest at a Weekly Rate, in the “Commercial Paper Mode” if they bear interest at a Commercial Paper Rate, in a “Term Mode” if they bear interest at a Term Rate, in a “Fixed Rate Mode” if they bear interest at a Fixed Rate, and in a “Dutch-Auction Mode” if they bear interest at a Dutch-Auction Rate. The Daily Mode, Weekly Mode, Commercial Paper Mode, Term Mode, Fixed Rate Mode and Dutch-Auction Mode are each a “Rate Mode” or a “Mode”.

The interest on the Bonds shall be paid on the following dates (each an “Interest Payment Date”): while the Bonds bear interest at a Weekly Rate, interest shall be payable on the first Business Day of each month, commencing May 2, 2005; while the Bonds bear interest at a Commercial Paper Rate, interest shall be payable on the last day of the Interest Period for such Bond; while the Bonds bear interest at a Daily Rate, interest shall be payable on the fifth Business Day of each month; while the Bonds bear interest at a Term Rate, interest shall be payable each May 15 and November 15 (or such other dates for such Bonds that are each the fifteenth calendar day of a month, are approximately six months apart and are specified by the Corporation in accordance with the Indenture) (each a “Stated Interest Payment Date”), beginning with the first such date that occurs no earlier than three months after the commencement of such Interest Period; while the Bonds bear interest at a Fixed Rate, interest shall be payable each Stated Interest Payment Date; any Conversion Date and each Maturity Date (without duplication of any Interest Payment Date listed above); and while the Bonds bear interest at a Dutch-Auction Rate, interest on the Bonds shall be payable on the “Interest Payment Date” as defined in **APPENDIX B – “AUCTION PROVISIONS.”**

Interest on Bonds in the Daily Mode, Weekly Mode or Commercial Paper Mode shall be computed on the basis of a year of 365 or 366 days, as the case may be, for the actual number of days elapsed. Interest on Bonds in the Term Mode or a Fixed Rate Mode shall be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Bonds in a Dutch-Auction Mode of 180 days or less shall be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the Bonds in a Dutch-Auction Mode in a

six-month Auction Period or a Special Rate Period of more than 180 days shall be computed on the basis of a 360-day year comprised of twelve 30-day months. See **APPENDIX B – “AUCTION PROVISIONS.”**

While Bonds bear interest at a Daily Rate, Weekly Rate, or Commercial Paper Rate, the interest rate on the Bonds may not exceed 10% per annum; while Bonds bear interest at a Fixed Rate the interest rate of the Bonds may not exceed 12%; while Bonds bear interest at a Dutch-Auction Rate, the interest rate on the Bonds may not exceed the lesser of 15% or the maximum rate permitted by applicable law; while the Bonds bear interest at a Term Rate, the interest rate on the Bonds may not exceed the lesser of (i) 10% per annum, or (ii) if a Liquidity Facility is in effect for such Bonds, the per annum interest rate used to calculate a Liquidity Facility Interest Amount applicable to such Bonds (each interest rate, as applicable, the “Maximum Rate”).

Notwithstanding anything herein or in the Indenture to the contrary, during any period in which a Bond is a Bank Bond, such Bond shall bear interest at the Bank Rate (hereinafter defined). “Bank Rate” as used herein, shall mean (a) so long as KBC Bank N.V., New York Branch is the Liquidity Provider, the interest rate equal to the interest rate required to be paid on Bank Bonds pursuant to Section 3.02(b) of the Reimbursement Agreement; and (b) thereafter, a rate mutually agreed to by the Liquidity Provider and the Corporation as the Bank Rate, of which notice is given to the Trustee in accordance with the Indenture. The Bank Rate and the components thereof shall be calculated for the actual number of days elapsed on the basis of a 360-day year. Each determination of the Bank Rate shall be made by the Liquidity Provider and shall be conclusive and binding upon the Corporation absent manifest error.

Redemption Prior to Maturity

The Bonds will be subject to redemption prior to maturity as follows:

Optional Redemption of Bonds in Daily Mode or Weekly Mode. Bonds in the Daily Mode or the Weekly Mode may be redeemed by the Authority, at the direction of the Corporation, with the prior consent of the Bank if required by the Reimbursement Agreement, in whole at any time or in part on any Interest Payment Date, prior to maturity at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

Optional Redemption of Bonds in Commercial Paper Mode. Bonds in the Commercial Paper Mode shall be subject to redemption at the option of the Authority, at the direction of the Corporation, in whole or in part on their respective Purchase Dates at a redemption price equal to the principal amount thereof. Bonds in the Commercial Paper Mode are not subject to optional redemption prior to their respective Purchase Dates.

Optional Redemption of Bonds in Term Mode or Fixed Rate Mode. Bonds in the Term Mode or the Fixed Rate Mode are subject to redemption in whole on any date or in part on any Interest Payment Date (and if in part, in such order of maturity as the Authority, at the direction of the Corporation, shall specify and within a maturity by lot or by such other method as the Trustee determines to be fair and reasonable and in Authorized Denominations) at the redemption prices set forth below:

(i) If, on the Conversion Date, the remaining term of the Bonds, in the case of Bonds in the Fixed Rate Mode, or the length of the Interest Period, in the case of Bonds in the Term Rate Mode, is greater than 10 years, then the Bonds will not be subject to optional redemption until the Stated Interest Payment Date to follow the tenth (10th) anniversary of the Conversion Date. On such first Stated Interest Payment Date, the Bonds will be subject to redemption at a redemption price of 102 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof plus accrued interest, if any, to the Redemption Date, and thereafter at a redemption price of 100 percent of the principal amount thereof plus accrued interest, if any, to the Redemption Date.

(ii) If, on the Conversion Date, the remaining term of the Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Bonds in the Term Rate Mode, is equal to or less than 10 years, but greater than 7 years, the Bonds will not be subject to optional redemption until the first Stated Interest Payment Date to follow the 4th anniversary of the Conversion Date. On such first Stated Interest Payment Date, the Bonds will be subject to redemption at a redemption price of 101 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and thereafter at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date.

(iii) If, on the Conversion Date, the remaining term of the Bonds, in the case of Bonds in the Fixed Rate Mode, or the length of the Interest Period, in the case of Bonds in the Term Rate Mode, is equal to or less than 7 years but greater than 5 years, the Bonds will not be subject to optional redemption until the first Stated Interest Payment Date to follow the third anniversary of the Conversion Date. On such first Stated Interest Payment Date, the Bonds will be subject to redemption at a redemption price of 101 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, which price will decline by one percent per annum on each succeeding anniversary of such first Stated Interest Payment Date until reaching a price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and thereafter at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date.

(iv) If, on the Conversion Date, the remaining term of the Bonds, in the case of Bond in the Fixed Rate Mode, or the length of the Interest Period, in the case of Bonds in the Term Rate Mode, is equal to or less than 5 years, the Bonds will be subject to redemption on or after the first Stated Interest Payment Date (whichever is earlier) to follow the second anniversary of the Conversion Date at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest, if any, to the Redemption Date, and prior thereto will not be subject to optional redemption.

In connection with a change to a Term Mode or a Fixed Rate Mode, the Authority, at the direction of the Corporation, may waive or otherwise alter its rights to direct the redemption of any such Bonds so changed to a Term Mode or a Fixed Rate Mode at any time without premium; provided that, notice describing the waiver or alteration shall be submitted to the Trustee and the Remarketing Agent, together with a Favorable Opinion addressed to them.

Optional Redemption of Bonds in Dutch-Auction Mode. Bonds in the Dutch-Auction Mode are subject to optional redemption by the Authority, at the direction of the Corporation, in whole or in part on the Business Day immediately following the end of an Auction Period at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

Extraordinary Optional Redemption of Bonds in Term Mode or Fixed Rate Mode. While the Bonds are in a Term Mode or the Fixed Rate Mode, the Authority shall, at the written direction of the Corporation, redeem the Bonds in whole, at any time, or in part on any Interest Payment Date, but only from Net Proceeds deposited to the Bond Fund created under the Indenture in such amount as is determined pursuant to the provisions of the Indenture relating to the application of property insurance proceeds and condemnation awards as a result of damage to, destruction or condemnation of or taking under the power of eminent domain of all or a substantial portion of the Facilities, at a redemption price equal to 100% of the principal amount thereof together with interest, if any, accrued on such Bonds to the redemption date.

Redemption Notice

Any notice of redemption shall be given not more than 60 and not less than 15 days prior to the redemption date, by mailing a copy of the redemption notice by first-class mail, postage prepaid, to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Bond Register. If at the time of mailing of notice of any optional redemption there shall not have been deposited in the Bond Fund established under the Indenture moneys available for such redemption the notice of optional redemption may be conditioned upon the deposit of certain moneys in the Bond Fund not later than the date fixed for redemption and such notice shall be of no effect and the redemption shall be deemed canceled unless such moneys are so deposited.

Tender for Purchase of Bonds on Demand of Owners

All references to any time in this Official Statement shall refer to eastern standard time or eastern daylight savings time, as in effect in the City of New York, New York on such day.

The Owners of Bonds in a Daily Mode or a Weekly Mode may elect to have their Bonds (or portions of those Bonds in amounts equal to Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, (i) in the case of Bonds in a Daily Mode, upon delivery of an irrevocable telephonic notice of tender (a "Bondholder Tender Notice") to a Remarketing Agent and the Trustee not later than 11:00 A.M. on the Purchase Date specified by the Owner, promptly confirmed in writing to the Trustee at its Office; and (ii) in the case of Bonds in a Weekly Mode, upon delivery of an irrevocable written notice of tender or irrevocable

telephonic notice of tender to a Remarketing Agent at its Office, promptly confirmed in writing (each a "Bondholder Tender Notice") to the Remarketing Agent at its Office and to the Trustee at its Office, not later than 4:00 P.M. on a Business Day not less than seven (7) days before the Purchase Date specified by the Owner in such notice. Such notices shall state the CUSIP number, Bond number and the principal amount of such Bond and that such Bond shall be purchased on the Purchase Date specified above. The Bond shall be delivered (with all necessary endorsements) at or before 12:00 noon on the Purchase Date to the designated office of the Trustee; provided, however, that payment of the Purchase Price shall be made only if the Bond so delivered conforms in all respects to the description thereof in such notice. Payment of the Purchase Price with respect to purchases described in this paragraph shall be made to the Owners of tendered Bonds by wire transfer in immediately available funds by the Trustee by the close of business on the Purchase Date.

The Owner of a Bond in the Term Mode may elect to have its Bond (or portions thereof in Authorized Denominations) purchased on the last day of the current Interest Period applicable to such Bond (or the next Business Day if such last day is not a Business Day) at a price equal to the Purchase Price upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent at its Office, promptly confirmed in writing (a "Bondholder Tender Notice") to the Remarketing Agent at its Office and to the Trustee at its Office, by not later than 4:00 P.M. on a Business Day not less than seven (7) days before such last day. Such notice shall state the CUSIP number, Bond number and the principal amount of such Bond to be purchased. Such Bonds shall be delivered by the Owners (with all necessary endorsements) to the designated office of the Trustee at or before 12:00 noon on such Purchase Date and payment of the Purchase Price of such Bonds shall be made in immediately available funds by the Trustee by the close of business on such Business Day.

SO LONG AS THE BONDS ARE HELD IN BOOK-ENTRY FORM BY DTC, THE BENEFICIAL OWNER OF BONDS IS RESPONSIBLE FOR SUBMITTING THE BONDHOLDER TENDER NOTICE, AND SHALL BE TREATED AS THE OWNER FOR SUCH PURPOSE, AND SUCH NOTICE NEED ONLY BE SUBMITTED TO THE REMARKETING AGENT.

Any election by a holder to tender a Bond (or portion thereof) for purchase on a Business Day shall be irrevocable and shall be binding on the holder making such election. Each Bondholder Tender Notice shall automatically constitute (i) an irrevocable offer to sell the Bond (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the Purchase Price of such Bond (or portion thereof) described above plus accrued and unpaid interest to the Purchase Date, (ii) an irrevocable authorization and instruction to the Trustee to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Trustee on the Purchase Date, (iii) an irrevocable authorization and instruction to the Trustee to effect the exchange of such Bond in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond or portion thereof, and (iv) an acknowledgment that such owner will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Trustee on the Purchase Date, except for the right of such Owner to receive such Purchase Price upon surrender of such Bond, if held in certificated form, to the Trustee endorsed for transfer in blank and with guarantee of

signatures satisfactory to the Trustee and that after the Purchase Date such Owner will hold such Bond as agent for the Trustee.

Owners of Bonds to be purchased must deliver their Bonds for purchase to the Trustee by 12:00 noon on the applicable Purchase Date and if the Trustee is in receipt of the purchase price therefor, any such Bond (or portion thereof) which is not so delivered (an "Undelivered Bond") shall be deemed to have been tendered to the Trustee and purchased as of the applicable Purchase Date and registration of the ownership of the Bond (or the portion thereof) shall be transferred to the purchaser thereof pursuant to the Indenture. Thereafter, the owner of such Undelivered Bond shall not be entitled to any payment other than the Purchase Price for such Undelivered Bond upon presentation and surrender thereof to the Trustee properly endorsed for transfer in blank and with guarantee of signatures satisfactory to the Trustee. Except for payment of such Purchase Price from moneys held by the Trustee for such purpose, such Undelivered Bond shall no longer be Outstanding and entitled to the benefit of the Indenture.

If the Bonds have been declared immediately due and payable as a result of an Event of Default under the Indenture and such declaration has not been annulled, stayed or otherwise suspended, then the Bonds will not to be subject to tender for purchase at the option of the owners thereof.

The Trustee shall not be obligated to pay the purchase price of the Bonds from any funds other than, first, immediately available funds on deposit in the Remarketing Proceeds Purchase Account established under the Indenture representing proceeds of the remarketing of such Bonds to any person other than the Authority, the Corporation or an affiliate of the Corporation, second, immediately available funds on deposit in the Liquidity Facility Purchase Account created under the Indenture, and third, moneys in the Corporation Purchase Account created under the Indenture and available to make such payment pursuant to the Indenture. Moneys in other funds (except as set forth above) under the Indenture will not be available for the purchase of such Bonds.

If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on any Purchase Date, the Trustee shall, after any applicable grace period: (a) return all tendered Bonds to the Owners thereof and (b) return all moneys received for the purchase of such Bonds (other than moneys provided by the Corporation and other than the Liquidity Facility proceeds, unless the Liquidity Facility is reinstated with respect thereto) to the persons providing such moneys.

Mandatory Tender for Purchase of Bonds

The Bonds are subject to mandatory tender for purchase on the following dates (each a "Mandatory Purchase Date") at a purchase price equal to the principal amount thereof, plus, in the case of purchases on a Purchase Date which is not an Interest Payment Date, accrued interest thereon, as follows:

(a) with respect to Bonds to be changed from one Mode to another Mode: (i) on each Conversion Date for such Bond, or if such Conversion Date is not a Business Day, the first

Business Day next succeeding such Conversion Date and (ii) on each proposed Conversion Date, or if such date is not a Business Day, the first Business Day next succeeding such Conversion Date for a proposed conversion of such Bond to a different Rate Mode, with respect to which proposed conversion the Corporation has failed to satisfy the conditions set forth in the Indenture for such conversion to take place, or with respect to which proposed conversion the Corporation has determined not to effect such conversion pursuant to procedures set forth in the Indenture;

(b) with respect to Bonds in the Commercial Paper Mode, on the last day of the current Interest Period applicable to such Bond;

(c) in the event the Corporation has elected to provide a Liquidity Facility and/or a Credit Facility for the Bonds, on the date (the “Expiration Tender Date”) which is the Interest Payment Date immediately preceding the expiration date of the Liquidity Facility or Credit Facility then in effect, as applicable, provided that such Interest Payment Date is a Business Day and is not less than five days before such expiration date (or if such Interest Payment Date is not a Business Day or is less than five days before such expiration date, the Business Day preceding such Interest Payment Date that is at least five days prior to such expiration date), in the event such Liquidity Facility or Credit Facility (as applicable) shall not have been extended effective on or before the date on which the notice of mandatory tender is sent to Owners pursuant to the Indenture;

(d) in the event the Corporation has elected to provide a Liquidity Facility and/or a Credit Facility for the Bonds, on the date of replacement of the then current Liquidity Facility or Credit Facility, as applicable, with an Alternate Liquidity Facility or Alternate Credit Facility, as applicable;

(e) in the event the Corporation has elected to provide a Liquidity Facility for the Bonds, on the date specified by the Trustee: (i) if a Liquidity Facility then in effect is a letter of credit, within five days of the Trustee’s receipt of written notice from the Bank directing the Trustee to perform a special mandatory tender as provided in the Liquidity Facility, (ii) if a Liquidity Facility then in effect is a letter of credit, within five days of the Trustee’s receipt of written notice from the Liquidity Provider that it will not reinstate the interest component of the Liquidity Facility, or (iii) if a Liquidity Facility in effect is a standby bond purchase agreement, a Termination Event, as defined in the Indenture, has occurred and is continuing and the Liquidity Provider has exercised its option to terminate a Liquidity Facility (unless the Liquidity Facility terminates due to an Immediate Termination Event (as defined in the Indenture) in which event the Bonds shall not be subject to mandatory tender for purchase); and

(f) (i) in the event that no Liquidity Facility is in place (because the Corporation is providing the liquidity) and the Corporation elects to provide a Liquidity Facility from a third party for the Bonds, on the effective date of such Liquidity Facility (or if such date is not a Business Day, then the next preceding Business Day), or (ii) in the event that a Liquidity Facility is in place and the Corporation elects to terminate the existing Liquidity Facility and provide liquidity for the Bonds itself, on the termination date of the existing Liquidity Facility (or if such date is not a Business Day, then the next preceding Business Day).

In the case of mandatory tender for purchase pursuant to clause (a) above (other than relating to a conversion to a Fixed Rate Mode or relating to a conversion to or from a Dutch-Auction Mode), the Trustee shall no less than twenty (20) days prior to the Mandatory Purchase Date give notice of mandatory tender for purchase by mail to all Owners of such Bonds. With respect to a mandatory purchase pursuant to (a) above relating to conversion to a Fixed Rate Mode or a conversion to or from a Dutch-Auction Mode, the Trustee shall give notice of such mandatory purchase as part of the notice of change of Mode otherwise to be sent to the Owners.

In the case of mandatory tender for purchase pursuant to clause (b) above, no notice of such mandatory purchase shall be given to the Owners of such Bonds.

In the case of any mandatory tender for purchase of Bonds pursuant to clause (c) above, if on or before the 20th day prior to the Expiration Tender Date, the Liquidity Facility or Credit Facility, as applicable, shall not have been extended or replaced in accordance with the Indenture, the Trustee shall promptly give notice of mandatory tender for purchase by first-class mail to all Owners of Bonds.

In the case of any mandatory tender for purchase of Bonds pursuant to clause (d) above, the Trustee shall, at least 15 days prior to the proposed replacement of the Liquidity Facility or Credit Facility with an Alternate Liquidity Facility or Credit Facility, as applicable, give notice of such replacement and mandatory tender for purchase by mail to all Owners of Bonds.

In the case of any mandatory tender for purchase of Bonds pursuant to clause (e) above, upon receipt by the Trustee of the written notice from the Liquidity Provider referred to in said clause, the Trustee shall, as soon as practicable (but in no event later than five (5) days following receipt of said notice), give notice of mandatory tender for purchase by first-class mail to all Owners of Bonds.

In the case of any mandatory tender purchase of Bonds pursuant to clause (f) above, upon receipt of notice from the Corporation with respect to the action the Corporation intends to take, the Trustee shall promptly give notice of mandatory tender for purchase by first-class mail to all Owners of Bonds at least 30 days prior to the effective date of the new Liquidity Facility or the termination of the existing Liquidity Facility (as applicable).

Owners of Bonds subject to mandatory tender for purchase must tender their Bonds for purchase to the Trustee by 12:00 noon on the applicable Mandatory Purchase Date and if the Trustee is in receipt of the purchase price therefor, any such Bond which is not so delivered (an "Undelivered Bond") shall be deemed to have been tendered to the Trustee and purchased as of the applicable Mandatory Purchase Date and registration and ownership of the Bond (or the portion thereof) subject to mandatory purchase shall be transferred to the purchaser thereof pursuant to the Indenture. Thereafter, the owner of such Undelivered Bond shall not be entitled to any payment other than the Purchase Price for such Undelivered Bond upon presentation and surrender thereof to the Trustee properly endorsed for transfer in blank and with guarantee of signatures satisfactory to the Trustee. Except for payment of such Purchase Price from moneys

held by the Trustee for such purpose, such Undelivered Bond shall no longer be Outstanding and entitled to the benefit of the Indenture.

If the Bonds have been declared immediately due and payable as a result of an Event of Default under the Indenture, and such declaration has not been annulled, stayed or otherwise suspended, then the Bonds will not to be subject to mandatory tender as described above.

The Trustee shall not be obligated to pay the Purchase Price of the Bonds from any funds other than, first, immediately available funds on deposit in the Remarketing Proceeds Purchase Account established under the Indenture representing proceeds of the remarketing of such Bonds to any person other than the Authority, the Corporation or an Affiliate of the Corporation, second, immediately available funds on deposit in the Liquidity Facility Purchase Account created under the Indenture, and third, moneys in the Corporation Purchase Account created under the Indenture and available to make such payment pursuant to the Indenture. Moneys in other funds (except as set forth above) under the Indenture will not be available for the purchase of such Bonds.

If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on any Purchase Date, the Trustee shall, after any applicable grace period: (a) return all tendered Bonds to the owners thereof and (b) return all moneys received for the purchase of such Bonds (other than moneys provided by the Corporation and other than the Liquidity Facility proceeds, unless the Liquidity Facility is reinstated with respect thereto) to the persons providing such moneys.

Interest Rate Determination for Bonds in Daily Mode or Weekly Mode

In the absence of manifest error, the determination of interest rates and Interest Periods by a Remarketing Agent is conclusive and binding upon a Remarketing Agent, the Paying Agent, the Trustee, a Liquidity Provider, if any, the Credit Provider, the Corporation, the Authority and the Owners.

During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 9:30 A.M. on each Business Day commencing with the first day the Bonds become subject to the Daily Mode (a "Rate Determination Date"). The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available by telephone to any Owner requesting such rate.

During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 P.M. on each Wednesday or, if Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday (a "Rate Determination Date"). The Weekly Rate shall be in effect (i) initially, from and including the first day the Bonds become subject to the Weekly Mode to and including the following Wednesday; and (ii) thereafter, from and including each Thursday to and including the following Wednesday. The Remarketing Agent shall make the Weekly Rate available promptly after 4:00 P.M. on the Rate Determination Date by telephone to any Owner requesting such rate.

The interest rate for any Bond in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Bond on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

Interest Period Determination; Interest Rate Determination for Bonds in Commercial Paper Mode

An Interest Period for a Commercial Paper Bond shall be of such duration, ending on a Business Day (but not later than the current Expiration Tender Date), of from one to 360 calendar days, as the Remarketing Agent shall determine in accordance with the provisions of the Indenture. A Commercial Paper Bond can have an Interest Period, and bear interest at a rate, different than other Commercial Paper Bonds. On the first day of an Interest Period (a "Rate Determination Date") for a Commercial Paper Bond, the Remarketing Agent shall select for such Bond the Interest Period which would result in the Remarketing Agent being able to remarket such Bond at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if on any Rate Determination Date, the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Bond, then the Remarketing Agent shall select the Interest Period which in the judgment of the Remarketing Agent would permit such Bond to achieve such lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the Corporation that any Bond is to be changed from the Commercial Paper Mode to any other Mode or is to be purchased in accordance with a mandatory purchase in anticipation of the expiration or replacement of a Credit Facility or Liquidity Facility or upon the direction of the Liquidity Provider, the Remarketing Agent shall, with respect to such Bond, select Interest Periods which do not extend beyond the Mandatory Purchase Date.

On or after 4:00 P.M. on the Business Day next preceding each Rate Determination Date for a Commercial Paper Bond, any Owner of such Bond may telephone the Remarketing Agent and receive notice of the anticipated next Interest Period and the anticipated Commercial Paper Rate for such Interest Period for such Bond. By 12:30 P.M. on each Rate Determination Date for a Commercial Paper Bond, the Remarketing Agent shall determine the Commercial Paper Rate for the Interest Period then selected for such Bond and shall give notice to the Trustee and the new Owner of the Interest Period, the Purchase Date and the Commercial Paper Rate.

Interest Rate Determination for Bonds in Term Mode

The Term Rate for Bonds in a Term Mode shall be determined by the Remarketing Agent not later than 4:00 P.M. on a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent (a "Rate Determination Date"). The Remarketing Agent shall give prompt written notice of the Term Rate to the Authority, the Corporation and the Trustee. The Term Rate shall be the minimum rate which, in the sole

judgment of the Remarketing Agent, will result in a sale of the Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Corporation in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the Corporation prior to such Rate Determination Date (for a reason other than a court prohibiting such selection) the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the next sentence and paragraph). No Interest Period in the Term Mode may extend beyond the Maturity Date for the Bonds.

A Bond on the date it is converted to the Term Mode and while it is in the Term Mode does not have to be secured by a Liquidity Facility if so determined by the Corporation. If, however, it is secured by a Liquidity Facility, then no Interest Period for such Bond may extend beyond the Expiration Tender Date.

Interest Rate Determination for Bonds in Fixed Rate Mode

The Remarketing Agent shall determine the Fixed Rate for a Bond in the Fixed Rate Mode by not later than 4:00 P.M. on the date determined by the Remarketing Agent which shall be at least one Business Day prior to the date the Bonds are converted to the Fixed Rate Mode (a "Rate Determination Date"). The Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of such Bond at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent shall give prompt notice to the Trustee of such rate by electronic means.

A Bond on the date it is converted to the Fixed Rate Mode and while it is in the Fixed Rate Mode does not have to be secured by a Liquidity Facility if so determined by the Corporation.

Bank Rate

The Indenture provides that Bonds that are Bank Bonds (as defined in the Indenture) shall bear interest at the Bank Rate, which shall be, (a) so long as KBC Bank N.V., New York Branch is the Liquidity Provider, the interest rate equal to the interest rate required to be paid on Bank Bonds pursuant to Section 3.02(b) of the Reimbursement Agreement; and (b) thereafter, a rate mutually agreed to by the Liquidity Provider and the Corporation as the Bank Rate, of which notice is given to the Trustee in accordance with the Indenture. The Bank Rate and the components thereof shall be calculated for the actual number of days elapsed on the basis of a 360-day year. Each determination of the Bank Rate shall be made by the Liquidity Provider and shall be conclusive and binding upon the Corporation absent manifest error.

Alternate Rates in the Daily Mode, Weekly Mode, Commercial Paper Mode, Term Mode, Fixed Rate Mode, or Dutch Auction Mode

The following shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any Bond or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a Bond (or the selection by the Corporation of the Interest Period for Bond in the Term Mode) shall be held to be unenforceable by a court of law of competent jurisdiction, until such time as the Remarketing

Agent (or the Corporation, if applicable) again makes such determinations. The following shall be the methods by which the interest rates and, in the case of the Commercial Paper and Term Modes, the Interest Periods, shall be determined for a Bond as to which either of the events described in clauses (i) or (ii) shall be applicable; however, the following shall not apply if the Corporation fails to select an Interest Period for a Bond in the Term Mode for a reason other than as described in the foregoing clause (ii): (a) If such Bond is a Commercial Paper Bond, the next Interest Period shall be from, and including, the last day of the current Interest Period for such Bond to, but excluding, the next succeeding Business Day and thereafter shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day; for each such Interest Period, the interest rate for such Bond shall be the Lehman Brothers Tax Exempt Commercial Paper Index in effect on the Business Day that begins an Interest Period; (b) if such Bond is in the Daily Mode, then such Bond shall bear interest during each subsequent Interest Period at the last lawful interest rate for such Bond set by the Remarketing Agent pursuant to the provisions described above under the caption “Interest Rate Determination for Bonds in Daily Mode or Weekly Mode”; (c) if such Bond is in the Weekly Mode, then such Bond shall bear interest during each subsequent Interest Period at the BMA Municipal Swap Index in effect on the first day of such Interest Period; (d) if such Bond is in the Term Mode and if (i) such Bond is secured by a Liquidity Facility, it will be changed automatically to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent as described under the caption “Interest Period Determination; Interest Rate Determination for Bonds in Commercial Paper Mode” above; or (ii) if such Bond is not secured by a Liquidity Facility, then such Bond shall stay in the Term Mode for subsequent Interest Periods, each beginning on the last Stated Interest Payment Date and ending on the next Stated Interest Payment Date, and shall bear interest at the Alternate Rate in effect at the beginning of each such Interest Period; and (e) if such Bond is in the Dutch-Auction Mode, it will remain in the Dutch-Auction Mode at a rate and with an Interest Period determined as described in **APPENDIX B – “AUCTION PROVISIONS.”**

Conversion

General. The Corporation may effect a change in Mode with respect to all or a portion of the Bonds provided that (i) immediately following any conversion, at least \$1,000,000 in principal amount of Bonds must be in a particular Rate Mode if any Bonds are in such Rate Mode, (ii) Bonds in a Term Mode cannot be converted to another Rate Mode prior to the date on or after which such Bonds may first be redeemed at the option of the Corporation at the redemption price of par, (iii) Bonds in a Fixed Rate Mode may not be converted into another Rate Mode, (iv) if a change in Mode will make a Bond subject to Rule 15c2-12 promulgated under the Securities Act of 1934, as amended, a continuing disclosure undertaking shall be entered into by the Corporation and the Trustee satisfying the requirements of said Rule, (v) so long as the Corporation intends to effect a change in Mode (other than to a Daily Mode or a Weekly Mode) with respect to only a portion of the Bonds, the Corporation shall obtain consent from the Liquidity Provider or the Credit Provider to amend the Liquidity Facility or the Credit Facility to allow such change in Mode with respect to such portion of the bonds or obtain an Alternate Liquidity Facility or Alternate Credit Facility that will either permit a change in Mode (including to other than a Daily Mode or a Weekly Mode) with respect to less than all of the Bonds that will provide sufficient interest coverage for the portion of the Bonds being converted

to a different Mode, and (vi) the Corporation shall obtain a Rating Confirmation Notice for a change in Mode with respect to the conversion of only a portion of the Bonds.

Conversion from a Mode Other Than the Fixed Rate Mode or Dutch-Auction Mode to a Mode Other Than the Fixed Rate Mode or Dutch-Auction Mode. A Bond (other than a Bond in the Fixed Rate Mode or the Dutch-Auction Mode) may be changed from one Mode to another Mode (other than the Fixed Rate Mode or the Dutch-Auction Mode) as follows:

(i) Conversion Notice; Notice to Owners. No later than the forty-fifth (45th) day or, in the case of a conversion to a Commercial Paper Mode, no later than the sixtieth (60th) day (or such shorter time as may be agreed to by the Authority, the Credit Provider, the Liquidity Provider, the Trustee and the Remarketing Agent) preceding the proposed Conversion Date, the Corporation shall provide written notice to the Trustee of its intention to effect a change in the Mode from the prevailing Mode (the “Current Mode”) to another Mode (the “New Mode”), and, if the change is to a Term Mode, the Stated Interest Payment Dates, the length of the initial Interest Period and whether or not the Bonds to be converted to the Term Mode will be covered by a Liquidity Facility (if they will be covered, then the initial Interest Period for such Bonds selected by the Corporation cannot extend beyond the Expiration Tender Date). Notice of the proposed change in Mode shall be given to the Owners in accordance with the requirements of the Indenture relating to notice to owners of mandatory tender for purchase on a Conversion Date or proposed Conversion Date. Upon such notice being given, all Bonds proposed to be converted shall be subject to mandatory tender for purchase on the proposed Conversion Date.

(ii) Determination of Interest Rates. The New Mode for a Bond shall commence on the Conversion Date for such Bond and the interest rate (together, in the case of a change to the Commercial Paper Mode, with the Interest Period for such Bond) shall be determined by the Remarketing Agent (or the Corporation in the case of the Interest Period for a Bond converted to the Term Mode) in the manner described above under the caption “**THE BONDS – Interest Rate Determination for Bonds in Daily Mode or Weekly Mode,**” “**Interest Period Determination; Interest Rate Determination for Bonds in Commercial Paper Mode**” or “**Interest Rate Determination for Bonds in Term Mode,**” as applicable.

(iii) Conditions Precedent. The following conditions precedent shall apply to such conversion: (A) the Conversion Date shall be a Business Day and, in the case of a change from the Commercial Paper Mode, shall be the next Purchase Date for the Commercial Paper Bond to be changed to the New Mode; and in the case of a change from a Term Mode, shall be the last day of the current Interest Period for the Bond being converted; (B) there shall have been delivered on the Conversion Date in accordance with the provisions of the Indenture: (1) a Favorable Opinion dated the Conversion Date; (2) a Rating Confirmation Notice; (3) a Liquidity Facility with a principal component equal to the principal amount of the Bonds being converted, and with an interest component equal to or greater than the Liquidity Facility Interest Amount for the applicable Mode; provided, however, that in the case of a conversion of a Bond to the Term Mode, no Liquidity Facility need be applicable to such Bond while in the Term Mode if the Corporation so elects by the time it gives the notice of its intent to convert the Mode on the Bonds, and (4) if such conversion to a different Rate Mode would require a termination, replacement or amendment of the Liquidity Facility, the prior written consent of the Credit Provider; and (C) if the Bonds to be changed are in the Commercial Paper Mode, no Interest

Period set after delivery by the Corporation of the notice of the intention to convert the Mode on the Bonds shall extend beyond the proposed Conversion Date and certain additional requirements set forth in the Indenture are satisfied.

Conversion from Daily Mode, Weekly Mode, Commercial Paper Mode or Term Mode to Fixed Rate Mode. At the option of the Corporation, a Bond may be changed from a Daily Mode, Weekly Mode, Commercial Paper Mode or a Term Mode to the Fixed Rate Mode as follows:

(i) Conversion Notice; Notice to Owners. Not less than forty-five (45) days (or such shorter time as may be agreed to by the Authority, the Credit Provider, the Liquidity Provider, the Trustee and the Remarketing Agent) before the proposed Conversion Date for such Bond, the Corporation shall give written notice to the Trustee stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Conversion Date, the Stated Interest Payment Dates, and whether or not the Bonds to be converted to the Fixed Rate Mode will be covered by a Liquidity Facility (and, if so, for how long). Such notice shall also state whether or not some or all of the Bonds to be converted shall be converted to serial Bonds and, if so, the applicable maturity dates and payments to be made in respect of the principal of such serial Bonds. In determining the schedule of maturities and schedule of mandatory sinking fund payments, Corporation shall use the following guidelines: (i) the Remarketing Agent shall determine the schedule of principal payments on the Bonds to be converted to a Fixed Rate to achieve annual level debt service with respect to the converted Bonds. In making such schedule, the Corporation shall, to the extent necessary, alternately round down and up to the nearest \$5,000, the amount allocable to the Bonds which are being converted; (ii) the Corporation shall allocate the Bonds to be converted to a Fixed Rate between serial bonds and term bonds in such manner that will produce the lowest aggregate interest payable with respect to such Bond. The foregoing notwithstanding, the Authority and the Corporation may agree to another method for providing payment of the principal on the Bonds when converted to a Fixed Rate if (a) the Remarketing Agent and Corporation deem the utilization of such other method necessary in order to remarket the Bonds at a price of par; and (b) there is delivered to the Trustee and the Authority, by the Corporation, a Favorable Opinion with respect to such utilization of such other method; and (c) the Authority consents in writing thereto. Not less than the twentieth (20th) day next preceding the Conversion Date, the Trustee shall mail, in the name of the Authority, a notice of such proposed change to the Owners of the Bonds being converted stating that the Mode will be changed to the Fixed Rate Mode, the proposed Conversion Date and that such Owner is required to tender such Owner's Bonds for purchase on such proposed Conversion Date. Upon such notice being given, all Bonds proposed to be converted shall be subject to mandatory tender for purchase on the proposed Conversion Date.

(ii) Determination of Interest Rates. The Fixed Rate for a Bond to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent in the manner described above under the caption **“THE BONDS – Interest Rate Determination for Bonds in Fixed Rate Mode.”**

(iii) Conditions Precedent. The following conditions precedent shall apply to such conversion: (A) the Conversion Date shall be a Business Day and, in the case of a change from the Commercial Paper Mode, shall be the Purchase Date for the Commercial Paper Bond to be

changed to the Fixed Rate Mode, and, in the case of a change from the Term Mode, shall be the last day of the current Interest Period for the Bond being converted; (B) the following items shall have been delivered on the Conversion Date in accordance with the provisions of the Indenture: (1) a Favorable Opinion dated the Conversion Date; (2) a Rating Confirmation Notice; (3) a Liquidity Facility with a principal component equal to the principal amount of the Bonds being converted and an interest component equal to the Liquidity Facility Interest Amount for the Fixed Rate Mode, unless the Corporation has elected by the time it gives the notice of its intent to convert the Mode on the Bonds not to have a Liquidity Facility apply to the Bonds to be converted to the Fixed Rate Mode; and (4) the prior written consent of the Credit Provider.

Conversions from Dutch-Auction Mode to Daily Mode, Weekly Mode, Commercial Paper Mode or Term Mode. At the option of the Corporation, all or any portion of the Bonds (in an amount which is an Authorized Denomination for the new Mode) may be converted from a Dutch-Auction Mode to another Mode (other than Fixed Rate Mode). Any such conversion shall be made as follows:

(i) Conversion Notice; Notice to Owners. The Corporation shall give written notice of any such conversion to the Authority, Trustee, the Remarketing Agent, if any, the Credit Provider, the Auction Agent and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion. Such notice shall specify the Mode Change Date and the Mode to which the conversion will be made (and the length of any Interest Period in the case of a conversion to a Term Mode). Together with such notice, the Corporation shall deliver a Favorable Opinion (which opinion shall also be delivered as of the Mode Change Date). Not less than twenty (20) days prior to the Mode Change Date, the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted, specifying the Mode Change Date and stating that all such Bonds being converted shall be subject to mandatory tender for purchase on the proposed Mode Change Date. Upon such notice being give, all Bonds proposed to be converted shall be subject to mandatory tender for purchase on the proposed Mode Change Date.

(ii) Determination of Interest Rates. The interest rate (together, in the case of a change to the Commercial Paper Mode, with the Interest Period for such Bond) shall be determined by the Remarketing Agent (or the Corporation in the case of the Interest Period for a Bond converted to the Term Mode) in the manner described above under the caption **“THE BONDS – Interest Rate Determination for Bonds in Daily Mode or Weekly Mode,” “Interest Period Determination; Interest Rate Determination for Bonds in Commercial Paper Mode”** or **“Interest Rate Determination for Bonds in Term Mode,”** as applicable.

(iii) Conditions Precedent. The following conditions precedent shall apply to such conversion: (A) if the Bonds in the Dutch-Auction Mode are in an Auction Period (as defined in the Indenture) other than the Daily Auction Period, the Mode Change Date shall be the second regularly scheduled Interest Payment Date following the final Auction Date and if such Bonds are in a daily Auction Period, the Mode Change Date shall be the next regularly scheduled Interest Payment Date; and (B) there shall be in effect on the Mode Change Date, except in the case of conversion to a Fixed Rate Mode or a Term Rate Mode, a Liquidity Facility meeting the requirements of the Indenture.

Conversions from Dutch-Auction Mode to Fixed Rate Mode. At the option of the Corporation, all or any portion of the Bonds bearing interest at a Dutch-Auction Rate (in an amount which is an Authorized Denomination for the new Mode) may be converted to bear interest at the Fixed Rate as follows:

(i) Conversion Notice; Notice to Owners. Not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion, the Corporation shall give written notice of the conversion to the Authority, Trustee, the Credit Provider, the Remarketing Agent, if any, the Liquidity Provider, if any, the Auction Agent, if any, and the Broker-Dealer, if any, setting forth the Mode Change Date. Together with such notice, the Corporation shall deliver a Favorable Opinion (which opinion shall also be delivered as of the Mode Change Date). The Trustee shall mail a notice of the proposed conversion to the Owners of all Bonds to be converted not less than twenty (20) days prior to the Mode Change Date specifying the Mode Change Date. Upon such notice being given, all Bonds proposed to be converted shall be subject to mandatory tender for purchase on the proposed Mode Change Date.

(ii) Determination of Interest Rates. The Fixed Rate for a Bond to be converted shall be established by the Remarketing Agent in the manner described above under the caption “**THE BONDS – Interest Rate Determination for Bonds in Fixed Rate Mode.**”

(iii) Conditions Precedent. The following conditions precedent shall apply to such conversion: the Mode Change Date shall be, in the case of a conversion from a Dutch-Auction Rate Period (as defined in the Indenture) other than a Daily Auction Period, the second regularly scheduled Interest Payment Date following the final Auction Date (as defined in the Indenture) and, in the case of a conversion from a Daily Auction Period, the first Business Day of any calendar month.

Conversion to Dutch-Auction Mode From Modes Other Than Fixed Rate Mode. At the option of the Corporation, all or any portion of the Bonds (in an amount which is an Authorized Denomination for the new Mode) may be converted from another Mode (other than Fixed Rate Mode) to a Dutch-Auction Mode as follows:

(i) Conversion Notice; Notice to Owners. The Corporation shall give written notice of any such conversion to the Authority, the Remarketing Agent, the Trustee, the Auction Agent, the Broker-Dealer, the Credit Provider, and the Liquidity Provider not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of such conversion and such notice shall specify the Mode Change Date and the length of the initial Auction Period (as defined in the Indenture). Together with such notice the Corporation shall deliver a Favorable Opinion (which opinion shall also be delivered as of the Mode Change Date) to the effect that such conversion will not adversely affect the validity of the Bonds or the tax-exempt status of the Bonds. Not less than fifteen (15) days prior to the Mode Change Date, the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted and such notice shall state that such Bonds shall be subject to mandatory tender for purchase on the proposed Mode Change Date; provided, however, that the Trustee shall not mail such written notice if the conversion is from a Commercial Paper Rate Period until it has received written confirmation from the Remarketing Agent that no Interest Period for the Bonds extends beyond

such Mode Change Date. Upon such notice being given, all Bonds proposed to be converted shall be subject to mandatory tender for purchase on the proposed Mode Change Date.

(ii) Determination of Interest Rates. The Dutch-Auction Rate for the Auction Period commencing on the Mode Change Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the Mode Change Date. Such determination shall be conclusive and binding upon the Authority, the Corporation, the Trustee, the Auction Agent and the Owners of the Bonds to which such rate will be applicable.

(iii) Conditions Precedent. (A) If such conversion is from a Daily Mode, Weekly Mode or Commercial Paper Mode, the Mode Change Date shall be a regularly scheduled Interest Payment Date on which interest is payable for such Current Mode; if such conversion is from a Term Mode, the Mode Change Date shall be a regularly scheduled Interest Payment Date on which a new Term Mode would otherwise have commenced, and in any such conversion from a Term Mode, the Mode Change Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period theretofore established for the Bonds to be converted; (B) Not later than 5:00 p.m., New York City time, on the date of determination of the Dutch-Auction Rate, the Broker –Dealer shall notify the Trustee, the Corporation and the Auction Agent of the Dutch-Auction Rate by telephone, promptly confirmed in writing; (C) No Bonds may be converted to the Dutch-Auction Mode when the Bonds are not held by a depository in book-entry form; (D) No conversion to the Dutch-Auction Mode shall occur until an Auction Agreement and Broker-Dealer Agreement shall be delivered to the Trustee and the Authority by the Corporation in form and substance satisfactory to the Trustee and the Authority; and (E) no conversion to the Dutch-Auction Mode shall occur until the Authority, the Trustee, the Paying Agent and a Remarketing Agent shall have received a Rating Confirmation Notice.

(iv) Revocation of Election to Convert to Dutch-Auction Mode. The Corporation may revoke its election to effect a conversion of the interest rate on any Bonds to a Dutch-Auction Mode by giving written notice of such revocation at any time prior to the setting of the Dutch-Auction Rate by the Broker-Dealer. In such event, the Bonds proposed to be converted shall not be converted to a Dutch-Auction Mode and the Owners of Bonds proposed to be converted shall nevertheless be required to tender their Bonds for mandatory purchase.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions to a conversion of the Bonds from one Rate Mode to another Rate Mode set forth in the Indenture have not been satisfied by the applicable Conversion Date, then the New Mode shall not take effect; however, the Bonds shall still be subject to mandatory tender for purchase on the applicable Conversion Date or proposed Conversion Date. If the failed change in Mode was from the Commercial Paper Mode, the applicable Bond shall remain in the Commercial Paper Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Conversion Date in accordance with the provisions of the Indenture. If the failed change in Mode was from the Daily Mode, the applicable Bond shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the applicable Bond shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the failed Conversion Date. If the failed change in Mode was from the Term Mode for which a Liquidity Facility was in effect for the

Bond to be changed, the applicable Bond shall be changed to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent on the failed Conversion Date in accordance with the applicable provisions of the Indenture; if, however, there was no Liquidity Facility in effect for such Bond to have been changed from the Term Mode, then such Bond shall stay in the Term Mode for an Interest Period ending on the next Stated Interest Payment Date and shall bear interest at the applicable Alternate Rate. If the failed change in Mode was from the Dutch-Auction Mode, the applicable Bond shall remain in the Dutch-Auction Mode with interest rates and Interest Periods to be established as set forth in **APPENDIX B – “AUCTION PROVISIONS.”**

Certain Provisions with Respect to Dutch-Auction Bonds

Definitions. “Auction Date” means with respect to Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Indenture, (i) if the Bonds are in a daily Auction Period, each Business Day, (ii) if the Bonds are in a Special Rate Period, the last Business Day of the Special Rate Period, and (iii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for the Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or a Special Rate Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such Bonds and (y) the Business Day next preceding the final maturity date for such Bonds. The last Business Day of a Special Rate Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“Auction Period” means (i) a Special Rate Period, (ii) with respect to Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (iii) with respect to Bonds in a seven-day mode, a period of generally seven days beginning on a day of the week for the Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a day of the week immediately prior to the normal Interest Payment Date) and ending on the day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to Bonds in the 28-day mode, a period of generally 28 days beginning on an Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a the day of the week immediately prior to the normal Interest Payment Date) and ending on the fourth day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to Bonds in the 35-day mode, a period of generally 35 days

beginning on an Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a day of the week immediately prior to the normal Interest Payment Date) and ending on the fifth day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (vi) with respect to Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding semiannual Interest Payment Date; provided, however, that if there is a conversion from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the next succeeding day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

“Interest Payment Date” means: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Rate Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; (c) when used with respect to a Special Rate Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Rate Period, or (ii) 92 or more days, a day of the week during each thirteenth week after the first day of such Special Rate Period, designated by the Corporation as the Interest Payment Date, or the next Business Day if such date is not a Business Day, and on the Business Day immediately following such Special Rate Period; (d) after the Fixed Rate Conversion Date, each semiannual Interest Payment Date; (e) each Mandatory Purchase Date; and (f) the Maturity Date.

“Dutch-Auction Rate” means the rate of interest to be borne by such Bonds during each Auction Period as determined by the Auction Agent; provided, however, in no event may the Dutch-Auction Rate exceed 15% per annum or the maximum rate permitted by applicable law.

In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a

period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Dutch-Auction Rate for the New Auction Period shall be the same as the Dutch-Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Dutch-Auction Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

Auction Agent. Upon conversion of the Bond to a Dutch-Auction Mode, the Trustee will enter into an Auction Agreement, pursuant to which the Auction Agent, as agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Orders by Existing Owners and Potential Owners. The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in **APPENDIX B**, as are the particulars with regard to the determination of the Auction Rate and the allocation of Bonds bearing interest at Dutch-Auction Rates (collectively, the “Auction Procedures”).

Amendment of Auction Procedures. The provisions of the Indenture concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Default Rate, Interest Payment Date, Maximum Dutch-Auction Rate, Reference Rate, Applicable Percentage and Dutch-Auction Rate, may be amended by obtaining the consent of the owners of all Outstanding Bonds bearing interest at a Dutch-Auction Rate. All such owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Trustee mailed notice to such owners that (i) the Dutch-Auction Rate determined for such date is the Winning Bid Rate, and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled.

Conversion of Bonds from Dutch-Auction Mode to Another Rate Mode. At the option of the Corporation, any portion of the Bonds (in an Authorized Denomination for the new Mode) may be converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Term Rate or a Fixed Rate, all as described under “*Conversion from Dutch-Auction Mode to Daily Mode, Weekly Mode, Commercial Paper Mode or Term Mode*” and “*Conversion from Dutch Auction Mode to Fixed Rate Mode.*” It is currently anticipated that, should any of the Bonds be converted to bear interest at a Dutch-Auction Rate, a Commercial Paper Rate, a Term Rate or a Fixed Rate, a new remarketing memorandum or remarketing circular will be distributed describing the Bonds during such Rate Mode.

Conversion from One Auction Period to Another. On the conversion date for Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Order will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the Dutch-Auction Rate will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Dutch-Auction Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures.

Special Considerations Relating to the Bonds Bearing Interest at Dutch-Auction Rates. Upon Conversion to a Dutch-Auction Mode, various parties will enter into an Auction Agreement and a Broker-Dealer Agreement in accordance with the requirements of the Indenture.

During a Dutch-Auction Rate Period a beneficial owner of a Bond may sell, transfer or dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see **APPENDIX B – “AUCTION PROVISIONS”**) or through a Broker-Dealer. The ability to sell a Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Bonds at a rate equal to or less than the Maximum Dutch-Auction Rate.

Changes to the Auction Periods and Auction Dates do not require amendments to the Auction Procedures.

As used herein, “Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions in New York, New York, St. Paul, Minnesota, and Los Angeles, California or in any other city in which the Office of the Trustee, a Remarketing Agent, a Credit Provider or a Liquidity Provider is located are required or authorized by law (including executive order) to close or on which the Office of the Trustee, a Remarketing Agent, a Credit Provider or a Liquidity Provider is closed for reasons not related to financial condition, (iii) a day on which the New York Stock Exchange is closed, or (iv) a day which is not a Business Day as defined in the Credit Facility.

For additional information, see **APPENDIX B – “AUCTION PROVISIONS.”**

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds 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 certificate will be issued for the Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing

for more than 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from more than 85 countries that DTC participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts, thereby eliminating 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, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (“NSCC,” “GSCC,” “MBSCC” 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners 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 Bond certificates representing their ownership interests in 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 representative of DTC. The deposit of Bonds 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 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts the 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Proxies assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose account the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on 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 Authority or Trustee, on payment 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, 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 is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

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 securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

SECURITY AND SOURCES OF PAYMENT FOR BONDS

Because the Bonds are secured by the Initial Letter of Credit, this Official Statement does not contain information relating to the Corporation or its ability to make payments sufficient to pay the principal and purchase price of and interest on the Bonds. The investment decision to purchase the Bonds should be made solely on the basis of the creditworthiness of the Bank, which is issuing the Initial Letter of Credit from which all principal and purchase price of and interest on the Bonds will be paid.

Limited Obligations

THE BONDS, THE INTEREST THEREON AND THE PURCHASE PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”), NOR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, THE PURCHASE PRICE THEREOF AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Indenture

Under the terms of the Indenture, the Authority will assign and pledge to the Trustee in trust: (a) the rights, title and interest of the Authority under the Loan Agreement and all payments, revenues, rents and receipts received or receivable by the Authority thereunder (except for Unassigned Rights), (b) the right, title and interest of the Authority in and to all funds (other than the Rebate Fund and funds held to pay the Purchase Price of any Bonds) and accounts established under the Indenture and all moneys and investments held therein, and (c) all future and present Revenues, which includes, without limitation, amounts paid to the Trustee under a Liquidity Facility or a Credit Facility.

The Loan Agreement

Pursuant to the Loan Agreement, the Authority will loan the proceeds of the Bonds to the Corporation for the purpose of paying the costs of the Project, and the Corporation

will agree to pay loan payments in amounts sufficient, together with certain investment earnings on certain of the funds held under the Indenture, to provide for the timely payment of the debt service requirements on all Bonds Outstanding under the Indenture.

The Authority will assign the Loan Agreement (except for Unassigned Rights) to the Trustee for the benefit of the Bondholders. See generally “**The Loan Agreement**” in **APPENDIX A– “SUMMARY OF LEGAL DOCUMENTS”** hereto.

The Initial Letter of Credit

The Initial Letter of Credit will be both a Liquidity Facility and a Credit Facility. Purchases of tendered Bonds in the event and to the extent not remarketed by the Remarketing Agent, and payment of principal of and interest on the Bonds in the event of a default will be initially funded by the Initial Letter of Credit. For more information, see “**LIQUIDITY FACILITY, CREDIT FACILITY AND REIMBURSEMENT AGREEMENT,**” “**BANK,**” “**ALTERNATE LIQUIDITY FACILITY**” and “**ALTERNATE CREDIT FACILITY.**”

REMARKETING AGENT

Pursuant to a Remarketing Agreement dated as of April 1, 2005 (the “Remarketing Agreement”), between the Corporation and Cain Brothers & Company, LLC (the “Remarketing Agent”), Cain Brothers & Company, LLC will serve as Remarketing Agent for the Bonds.

LIQUIDITY FACILITY, CREDIT FACILITY AND REIMBURSEMENT AGREEMENT

The Liquidity Facility

The initial Liquidity Facility shall be the Initial Letter of Credit. The initial Liquidity Facility and each Alternate Liquidity Facility shall be an irrevocable obligation of a Liquidity Provider to pay to the Trustee, upon draw requests made in accordance with the terms thereof, up to (a) an amount equal to the aggregate principal amount of the Outstanding Bonds sufficient to pay the principal portion of the purchase price of Bonds tendered for purchase pursuant to the Indenture to the extent remarketing proceeds are not available for such purpose, plus (b) (i) during the Weekly Mode shall be an amount equal to 46 days’ interest on the Outstanding Bonds calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, (ii) during the Daily Mode shall be an amount equal to 52 days’ interest on the Outstanding Bonds calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, (iii) during the Term Mode shall be an amount equal to 193 days’ interest on the Outstanding Bonds then covered by a Liquidity Facility, calculated at the Maximum Rate on the basis of a 360-day year composed of twelve 30 day months, and (iv) during the Commercial Paper Mode, shall be an amount equal to that number of days interest on the Outstanding Bonds, calculated at the Maximum Rate on a basis of a 365-day year for the actual number of days elapsed, as is provided for in a Liquidity Facility securing such Bonds, but in no event shall such number of days be less than the number of days contained in the Interest Period established by the Corporation for Bonds in a Commercial Paper Mode. The Trustee will

not be entitled to draw on a Liquidity Facility with respect to Bank Bonds or Corporation Bonds. Each Liquidity Facility shall provide that a Liquidity Provider's obligation under such Liquidity Facility will be reduced to the extent of any drawing thereunder, subject to reinstatement as described therein.

The Trustee shall draw moneys under a Liquidity Facility in accordance with the terms thereof to the extent necessary to make timely payments of purchase price required to be made pursuant to, and in accordance with, the Indenture. The proceeds of such drawings shall be deposited in a Liquidity Facility Purchase Account.

In each case that Bonds are redeemed or deemed to have been paid pursuant to the Indenture, the Trustee shall take such action as may be permitted under a Liquidity Facility to reduce the amount available thereunder to an amount equal to the principal amount of the Bonds Outstanding, plus the applicable Liquidity Facility Interest Amount.

Unless all of the conditions of the Indenture have been met by the times specified therein prior to the expiration of a Liquidity Facility, the Trustee shall take all action necessary to call the Bonds secured by such Liquidity Facility for mandatory tender for purchase pursuant to the Indenture, by reason of the expiration of a Liquidity Facility, on the Interest Payment Date preceding such expiration date but not less than five days before such expiration date. Notice of the expiration of a Liquidity Facility shall be given by the Trustee to each Rating Service and to the Authority. (see **"THE BONDS – Mandatory Tender for Purchase of Bonds."**)

The Corporation may arrange to extend the term of a Liquidity Facility, provided that the extended Liquidity Facility shall meet the applicable requirements of the Indenture, including the interest coverage requirements of the Indenture. The Corporation shall cause a Liquidity Provider's written amendment effecting such extension to be delivered to the Trustee no later than 20 days preceding the expiration date of the existing Liquidity Facility. Nothing in the Indenture shall imply that a Liquidity Provider is under any obligation to grant any such extension.

The Corporation may elect not to provide a Liquidity Facility and agree to pay the purchase price of any tendered Bonds itself at any time after the date of issuance, provided that: (i) the Bonds shall be subject to mandatory tender and purchase as provided in the Indenture; and (ii) that the Credit Provider has consented thereto. As a result, during any period in which no Liquidity Facility is in effect, any references herein to a Liquidity Facility shall be ignored or shall be construed as referencing the Corporation for as long as the Corporation has agreed to pay the purchase price of any tendered Bonds itself. References to a "draw" or "drawing" (or a similar term) on a Liquidity Facility, for example, shall be construed in the absence of a Liquidity Facility to be a notice to the Corporation of the need to provide funds for the purchase of Bonds. The Corporation, at its option, may elect to provide a Liquidity Facility for all (but not less than all) of the Bonds upon at least 45 days written notice to the Trustee, and a Remarketing Agent and upon such election the Bonds shall be subject to mandatory purchase pursuant to the Indenture.

The Credit Facility

The initial Credit Facility shall be the Initial Letter of Credit. The Corporation may replace the initial Credit Facility with an Alternate Credit Facility (which may be another letter of credit or other form of credit enhancement) in accordance with the terms of the Indenture.

If the Credit Facility in effect is a letter of credit, the Trustee shall draw moneys under the Credit Facility in accordance with the terms thereof to the extent necessary to make timely payments of principal or redemption price of and interest on the Bonds required to be made from the Bond Fund. required to be made pursuant to, and in accordance with, the Indenture. The proceeds of such drawings shall be deposited in the Letter of Credit Debt Service Account.

If the Credit Facility in effect is a letter of credit, in each case that Bonds are redeemed or deemed to have been paid pursuant to the Indenture, the Trustee shall take such action as may be permitted under the Credit Facility to reduce the amount available thereunder to the principal amount of the Bonds Outstanding, plus the applicable Liquidity Facility Interest Amount, plus any applicable premium coverage if the Credit Facility so provides.

Unless all of the conditions of the Indenture have been met by the times specified therein prior to the expiration of a Credit Facility, the Trustee shall take all action necessary to call the Bonds for mandatory tender for purchase pursuant to the Indenture, by reason of the expiration of the Credit Facility, on the Interest Payment Date preceding such expiration date but not less than five days before such expiration date. Notice of the expiration of the Credit Facility shall be given by the Trustee to each Rating Service, to the Liquidity Provider and to the Authority. (see **“THE BONDS – Mandatory Tender for Purchase of Bonds.”**)

The Corporation may arrange to extend the term of a Credit Facility, provided that the extended Credit Facility shall meet the applicable requirements of this Indenture, including the interest coverage requirements of the Indenture. The Corporation shall cause the Credit Provider’s written amendment effecting such extension to be delivered to the Trustee no later than 20 days immediately preceding the expiration date of the existing Credit Facility. Nothing in the Indenture shall imply that the Credit Provider is under any obligation to grant any such extension.

The Initial Letter of Credit

General. The Initial Letter of Credit is an irrevocable obligation of the Bank to pay to the Trustee, upon drawings made by the Trustee in strict compliance with the terms and conditions of the Initial Letter of Credit, up to (a) an amount equal to the outstanding principal amount of the Bonds to enable the Trustee to pay (i) the principal amount of the Bonds when due at maturity or upon redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered pursuant to the Indenture and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 46 days interest on the Bonds at the maximum rate of 10% per annum (i) to enable the Trustee to pay interest on the Bonds when due and (ii) to enable the Trustee to pay the portion of the purchase price of Bonds tendered pursuant to the Indenture

and not remarketed corresponding to the accrued interest on such Bonds. The original stated amount of the Initial Letter of Credit is \$23,289,863.01, of which \$23,000,000.00 is in respect of principal of the Bonds and \$289,863.01 is in respect of interest on the Bonds.

Draws. Under the Indenture, the Trustee is directed to draw upon the Initial Letter of Credit in the following circumstances:

- (a) to make timely payment of the interest on the Bonds;
- (b) to make timely payment of the principal of the Bonds at maturity or upon optional or mandatory call for redemption; and
- (c) to make timely payment of the purchase price of Bonds required to be purchased upon an optional or mandatory tender for purchase pursuant to the provisions of the Indenture, to the extent remarketing proceeds or other funds are not available to make such payment under the Indenture.

Reduction and Reinstatement. Each drawing honored by the Bank under the Initial Letter of Credit shall immediately reduce the principal component and/or the interest component (as the case may be) of the amount available under the Initial Letter of Credit by the amount of such drawing, and the aggregate amount available under the Initial Letter of Credit shall be correspondingly reduced. The amount available under the Initial Letter of Credit, as so reduced, shall be reinstated only as follows:

- (a) with respect to a drawing under the Initial Letter of Credit to pay interest, the interest component shall be reinstated automatically at 5:00 p.m. on the seventh calendar day following the date such drawing is honored by an amount equal to the amount of such drawing for interest, unless the Trustee shall have received written notice from the Bank before 5:00 p.m. on such seventh calendar day that an Event of Default has occurred under the Reimbursement Agreement and such reinstatement shall not occur; and
- (b) with respect to a drawing under the Initial Letter of Credit to pay the purchase price of any Bonds, the principal component and the interest component with respect to such Bonds shall be reinstated when and to the extent that the Bank has received immediately available funds to reimburse the Bank for such drawing pursuant to the Reimbursement Agreement and the Trustee has delivered to the Bank the reinstatement certificate in the form prescribed by the Initial Letter of Credit.

The amount available under the Initial Letter of Credit and the respective principal and interest components thereof shall also be reduced automatically following the payment of principal of the Bonds pursuant to the Indenture, upon receipt by the Bank from the Trustee of a certificate in the form prescribed by the Initial Letter of Credit, each such reduction to be in the amount necessary to reduce the amount available under the Initial Letter of Credit and the principal and the interest components thereof to the respective amounts specified by the Trustee in such certificate.

Expiration. The Initial Letter of Credit will expire upon the first to occur of the following: (a) the Stated Expiration Date (as defined in the Initial Letter of Credit and used herein), (b) the date on which the Bank receives a certificate from the Trustee in the form

prescribed by the Initial Letter of Credit to the effect that there are no Bonds outstanding other than (i) Bonds secured by an Alternate Letter of Credit meeting the requirements of the Indenture or (ii) Bonds bearing interest at a Term Rate, a Dutch-Auction Rate or a Fixed Rate, (c) the tenth calendar day after the Trustee receives written notice from the Bank stating that an Event of Default has occurred and is continuing under the Reimbursement Agreement, directing the Trustee to declare the Bonds immediately due and payable or to call the Bonds for immediate mandatory tender for purchase pursuant to the Indenture, and stating that the Initial Letter of Credit will terminate on such tenth calendar day, or (d) the date on which the final drawing available under the Initial Letter of Credit by a Redemption Draw Certificate (as defined in the Initial Letter of Credit) is honored. The Stated Expiration Date of the Initial Letter of Credit is April 15, 2008. The Stated Expiration Date may be extended beyond the Stated Expiration Date then in effect at the sole discretion of the Bank upon request of the Corporation.

The Reimbursement Agreement

General. Under the Reimbursement Agreement, the Bank agrees to issue the Initial Letter of Credit to the Trustee concurrently with the original issuance and delivery of the Bonds, and the Corporation agrees, among other things, to reimburse the Bank, with interest, for each drawing under the Letter of Credit and to pay certain fees to the Bank.

Security. The obligations of the Corporation to the Bank under the Reimbursement Agreement will be secured (on a parity with the Corporation's obligations under the Loan Agreement and the Installment Sale Agreement relating to the 1999 Certificates) by an amended and supplemented first deed of trust on the Facilities (the "Deed of Trust") and by a pledge of gross revenues under the Loan Agreement. Bonds purchased with proceeds of drawings under the Initial Letter of Credit will be pledged to the Bank pursuant to the Loan Agreement until such time as such Bonds are remarketed and the Initial Letter of Credit is reinstated with respect thereto. As used herein, the term "Financing Documents" includes the Reimbursement Agreement, the Indenture, the Loan Agreement, the Deed of Trust, the Trust Agreement and the Installment Sale Agreement relating to the 1999 Certificates, and certain other documents.

Representations, Warranties and Covenants. The Reimbursement Agreement sets forth various representations, warranties and covenants of the Corporation, including, without limitation, representations, warranties and covenants relating to maintenance of corporate existence, maintenance of insurance, maintenance of properties, furnishing of financial reports and other information, limitations on additional debt, limitations on additional liens, maintenance of certain financial ratios, achievement and maintenance of certain occupancy levels, ERISA matters and environmental matters.

Events of Default. Each of the following events shall constitute an "Event of Default" under the Reimbursement Agreement:

(a) Failure by the Corporation to make or cause to be made to the Bank when due under the Reimbursement Agreement or the Fee Letter any payment as (i) reimbursement for a draw under the Initial Letter of Credit, (ii) a letter of credit commitment fee or other fee, or (iii) interest on any such draw, commitment fee or other fee;

(b) Failure by the Corporation to make any other payment to the Bank under the Reimbursement Agreement within 10 days of the date when it is due;

(c) Failure by the Corporation to perform or comply with any of the terms or conditions contained in the following Sections of the Reimbursement Agreement: 6.01 (corporate existence and tax-exempt status), 6.06 (transfer of property), 6.09 (visitation rights), 6.14 (financial covenants), 6.15 (occupancy requirements), 6.16 (reports and plans), 6.17 (required optional redemptions), 6.18 (additional debt), 6.20 (loans to other persons and transfers of unrestricted cash), 6.38 (amendments to financing documents), 6.39 (limitation on optional calls), or 6.40 (limitation on conversions); or the Corporation shall grant or otherwise create any lien in violation of 6.19 (negative pledge);

(d) Failure by the Corporation to perform or comply with any of the other terms or conditions contained in the Reimbursement Agreement and continuance of such failure for 30 days after the earlier of written notice from the Bank to the Corporation or the Corporation has knowledge that such failure has occurred, or such longer period to which the Bank in its sole discretion may agree in the case of a failure not curable by the exercise of due diligence within such 30 day period, provided that the Corporation shall have commenced to cure such failure within such 30 day period and shall complete such cure as quickly as reasonably possible with the exercise of due diligence;

(e) Any of the representations or warranties of the Corporation set forth in the Reimbursement Agreement, any other Financing Document or any offering document for the Bonds or in any other document furnished to the Bank pursuant to the terms of the Reimbursement Agreement proves to have been false or misleading in any material respect;

(f) Any material provision of the Reimbursement Agreement or any other Financing Document shall at any time for any reason cease to be valid and binding on the Corporation, or shall be declared to be null and void, or shall be violative of any applicable law relating to a maximum amount of interest permitted to be contracted for, charged or received, or the validity or enforceability thereof shall be contested by the Corporation, the Trustee, the Authority, the Trustee or issuer of the 1999 Certificates, or any governmental authority, court or authority, or the Corporation shall deny that it has any or further liability or obligation under the Reimbursement Agreement or any other Financing Document to which it is a party;

(g) The occurrence of an Event of Default or event of default as defined in any other Financing Document (without regard to any waiver of such Event of Default or event of default by any Person other than the Bank);

(h) The Corporation shall (i) apply for, approve or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of the Corporation or of property of the Corporation or (ii) admit in writing the inability of the Corporation to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) be adjudicated to be bankrupt or insolvent, or (v) commence a voluntary case under the United States Bankruptcy Code or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against the Corporation

in any bankruptcy, reorganization or insolvency proceeding, or take corporate action for the purpose of effecting any of the foregoing, or (vi) have instituted against it, without its application, approval or consent, a proceeding in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Corporation an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up or liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Corporation or of all or any substantial part of the assets of the Corporation or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment or (B) remain undismissed and undischarged for a period of 60 days or (vii) the Corporation shall take any action in furtherance of, or indicating its consent to, approval of or acquiescence in, any of the acts described in clauses (i) through (vi) above;

(i) Any litigation or administrative proceeding ensues, and is not dismissed within 150 days, involving the Corporation or any instrument, contract or document delivered to the Bank in compliance with the Reimbursement Agreement, and the adverse result of such litigation or proceeding could have, in the Bank's reasonable opinion, a material adverse effect, except for any action or proceeding in respect of which the Bank has received from counsel for the Corporation acceptable to the Bank an opinion in form and substance satisfactory to the Bank to the effect that (1) such action or proceeding is without merit or (2) the adverse result of such action or proceeding will neither (i) result in a judgment of more than \$250,000 over any applicable insurance coverage in effect and available to pay such judgment nor (ii) materially and adversely affect the operations of the Corporation or the transactions contemplated by the Reimbursement Agreement and the other Financing Documents;

(j) The Corporation fails to maintain in full force and effect any of the following insurance coverages as required by the Reimbursement Agreement: all-risk builder's risk insurance with respect to any construction undertaken by the Corporation, fire and extended coverage insurance, business interruption insurance, general liability insurance and professional liability insurance;

(k) Any one or more judgments are entered against the Corporation aggregating \$250,000 or more in excess of the Corporation's insurance coverage therefor in respect of which the applicable insurer is solvent and has accepted coverage and, within 30 days of such entry such judgments are not satisfied or execution of such judgment has not been stayed pending appeal or, in the event of such stay, such judgments are not satisfied within 30 days after such stay expires;

(l) The occurrence of an event of default in respect of any debt of the Corporation of \$250,000 or more (after the lapse of any applicable grace period) that results in the acceleration or mandatory redemption of such debt or enables the holder or holders of such debt or any Person acting on behalf of such holder or holders to accelerate the maturity or cause the mandatory redemption of such debt;

(m) The occurrence of an event of default as defined in any other credit agreement under which the Corporation is now or hereafter obligated to the Bank;

(n) The California Department of Social Services or the California Department of Health Services (i) suspends, annuls or revokes any required approval or license in connection with the Facilities, (ii) materially increases any reserve requirement specifically with respect to the Facilities, (iii) imposes any lien in connection with the Facilities (other than a permitted lien), (iv) files a petition for the appointment of a receiver or an administrator for the Facilities, or (v) issues a cease and desist order or takes any other action or imposes any other requirement as a sanction for failure to meet any requirement of any applicable law which is reasonably likely to have a material adverse effect;

(o) The Facilities or any portion thereof is subjected to any condemnation or similar proceeding which is reasonably likely to have a material adverse effect;

(p) The Facilities suffer a loss by fire or other casualty and such loss is not fully insured and any deficiency between the amount of insurance paid with respect to such loss and the value of the Facilities destroyed exceeds \$250,000;

(q) The independent public accountant retained by the Corporation (i) delivers an opinion on the financial statements of the Corporation, which opinion states that such financial statements do not fairly or accurately present the financial condition of the Corporation or includes an explanatory paragraph which describes conditions which raise substantial doubt about the Corporation's ability to continue to operate as a consolidated going concern, or (ii) delivers an opinion on the annual financial statements of the Corporation which is qualified in any material respect (other than as to a change in generally accepted accounting principles with which such accountants concur).

Remedies. Upon or after the occurrence of any Event of Default, the Bank may, at its sole option and without prior notice, demand, protest or presentment, and to the extent permitted by applicable law, do any or all of the following:

(a) Notify the Trustee that such Event of Default has occurred, direct the Trustee to call the Bonds for mandatory tender pursuant to the Indenture, and notify the Trustee that the Initial Letter of Credit will terminate 10 calendar days after the Trustee's receipt of such notice;

(b) Notify the Trustee that such Event of Default has occurred, direct the Trustee to declare the Bonds immediately due and payable, and notify the Trustee that the Initial Letter of Credit will terminate 10 calendar days after the Trustee's receipt of such notice;

(c) Require immediate reimbursement for all draws on the Initial Letter of Credit applied to purchase Bonds;

(d) Declare the Corporation's obligations under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable;

(e) Order construction of the Project stopped;

(f) Direct the Trustee to disburse funds from the Project Fund, and pay out additional sums of the Bank (which sums shall be immediately due and payable by the

Corporation to the Bank, shall bear interest from the date of payment by the Bank until the date of repayment at the applicable rate specified in the Reimbursement Agreement and shall be secured by the Financing Documents), and use, or direct the Trustee or the trustee for the 1999 Certificates to use, any property of the Corporation in which the Bank, the Trustee or the trustee for the 1999 Certificates has or obtains an interest, including any funds which have not been advanced from the Project Fund, for application to or as a reserve for payment of any or all costs with respect to the completion of the Project, and in such connection deliver or disburse the same to such entities in such amounts and with such preferences and priorities as the Bank in its sole discretion shall determine, either with or without vouchers or orders executed by the Corporation;

(g) Take whatever action may be available at law or in equity to collect obligations due and payable to the Bank under the Reimbursement Agreement and to enforce the performance of the Corporation's obligations under the Reimbursement Agreement and the other Financing Documents;

(h) Require the Corporation to pay interest and Letter of Credit commitment fees at higher rates as provided in the Reimbursement Agreement;

(i) Direct the Trustee and the trustee for the 1999 Certificates to exercise remedies in accordance with the provisions of the Financing Documents (in each case treating the Bank as the holder of all Bonds, including any Bonds purchased, redeemed or paid with the proceeds of a draw on the Initial Letter of Credit for which related reimbursement obligations are owing to the Bank);

(j) Decline to approve any further advance of funds under the Indenture or the Loan Agreement to or for the benefit of the Corporation or any other Person;

(k) By injunction or other writ, order, decree or decision of a court of competent jurisdiction in an action, suit or other proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the Bank's rights under the Reimbursement Agreement, the other Financing Documents or any other agreement or instrument;

(l) Set off, in such order as the Bank may determine, any or all of the obligations of the Corporation to the Bank, direct or indirect, now existing or hereafter created, including any and all obligations owing to the Bank under the Reimbursement Agreement, against any or all of the property of the Corporation in the Bank's possession at or subsequent to the occurrence of the Event of Default regardless of the capacity in which it possesses such property;

(m) Exercise any and all such rights as the Bank may have as a secured party under the Uniform Commercial Code of California or other applicable law with respect to the security interests created by the Reimbursement Agreement or the other Financing Documents; and in respect of any sale or other disposition under the Uniform Commercial Code of California or other applicable law, any notice required to be given by the Bank shall be sufficient if given five (5) days prior to the day on which such sale or other disposition will be made, and such notice shall be deemed reasonable notice;

(n) Sell the Bank's rights under the Reimbursement Agreement, the other Financing Documents, any other agreements or instruments delivered to the Bank, or any of them, to anyone at private sale; and

(o) Exercise, or cause to be exercised, any and all such remedies as it may have under the Reimbursement Agreement, the other Financing Documents or any other document or at law or in equity.

ALTERNATE CREDIT FACILITY

The Corporation may, at the close of business on any Interest Payment Date or, if the Bonds are in a Term Mode, on any Conversion Date prior to the expiration of a Credit Facility, replace such Credit Facility with an Alternate Credit Facility meeting the requirements of the Indenture. Each Alternate Credit Facility must:

(1) Be a municipal bond insurance policy, letter of credit or other form of credit enhancement representing an irrevocable, unconditional obligation of a financial institution having capital and surplus of not less than \$50,000,000;

(2) If the Alternate Credit Facility is a letter of credit, subject to the conditions thereof, entitle the Trustee to draw upon or demand payment and receive in immediately available funds (A) while the Bonds secured by such Credit Facility are in the Weekly Mode, up to an amount equal to the principal amount of the Outstanding Bonds, plus up to 46 days' accrued interest on such principal amount at a maximum rate of 10% per annum based on a 365-day year, to pay such principal of or interest on the Bonds or the purchase price of Bonds tendered for purchase, (B) while the Bonds secured by such Credit Facility are in the Daily Mode, up to an amount equal to the principal amount of the Outstanding Bonds, plus up to 52 days' accrued interest on such principal amount at a maximum rate of 10% per annum based on a 365-day year, to pay such principal of or interest on the Bonds or the purchase price of Bonds tendered for purchase, (C) while the Bonds are in a Term Mode, up to an amount equal to the principal amount of the Outstanding Bonds, plus up to 193 days' accrued interest thereon at a rate not less than the applicable Term Rate based on a 360-day year, to pay such principal, interest and purchase price; and (D) while the Bonds are in a Commercial Paper Mode, up to an amount equal to the principal amount of the Outstanding Bonds, plus an amount equal to a Liquidity Facility Interest Amount, to pay such principal, interest or purchase price; and

(3) Have an Expiration Date not earlier than the Expiration Date of the then current Credit Facility securing such Bonds unless a Credit Facility that is an insurance policy is being replaced by a Credit Facility that is a letter of credit.

Prior to the replacement of any Credit Facility, the following conditions shall have been met:

(1) The Trustee and the Authority shall have received from the Corporation written notice of such replacement and the effective date thereof no later than 45 days (or such shorter time as may be agreed to by the Corporation, the Trustee and the Remarketing Agent) preceding such replacement date;

(2) The Trustee and the Authority shall have received the following no later than the effective date of such replacement:

A. An opinion of Counsel for the issuer of the Alternate Credit Facility (which opinion is to be delivered upon the issuance of the Alternate Credit Facility) that such Alternate Credit Facility constitutes a legal, valid and binding obligation of the issuer in accordance with its terms; and

B. A Favorable Opinion with respect to such replacement; and

C. The original Alternate Credit Facility; and

(3) The requirements of the Indenture as to mandatory tender of Bonds for purchase shall have been met to the extent applicable.

Upon receipt by the Trustee of the notice set forth in the Indenture, the Trustee shall immediately notify the issuer of the existing Credit Facility that its Credit Facility will be replaced by an Alternate Credit Facility. On the effective date of the Alternate Credit Facility, the replaced Credit Facility shall be promptly surrendered to the issuer thereof for cancellation, provided, however, that the replaced Credit Facility shall not be surrendered until all draws under the replaced Credit Facility shall have been honored and the Alternate Credit Facility shall have been delivered.

The Trustee shall, at least 15 days prior to the proposed replacement of a Credit Facility with an Alternate Credit Facility, give notice thereof to the Owners of the Bonds by mailing notice to the Owners of such Bonds.

The Trustee shall, within 30 days after the extension of the term of a Credit Facility or the substitution of a Credit Facility, give notice thereof by mailing written notice to the Owners of the Bonds.

The Trustee shall promptly give notice of any proposed substitution, extension or replacement of a Credit Facility to the Authority, the Trustee, a Liquidity Provider, a Remarketing Agent and each Rating Service.

After a mandatory purchase of Bonds in anticipation of the expiration or termination of a Credit Facility, nothing in the Indenture shall limit the Corporation's right to provide other credit enhancement or no credit enhancement as security for the Bonds; provided that any such credit enhancement shall have administrative provisions reasonably satisfactory to the Trustee and the Corporation shall have furnished to the Trustee a Favorable Opinion with respect thereto. In addition, in the event of a reduction in the credit rating of the Credit Provider, nothing in the Indenture shall limit the right of the Corporation to provide additional credit enhancement to secure the Bonds.

ALTERNATE LIQUIDITY FACILITY

The Corporation may, at the close of business on any Interest Payment Date or, if the Bonds are in a Term Mode, on any Conversion Date prior to the expiration of a Liquidity

Facility, replace a Liquidity Facility with another Liquidity Facility or other liquidity device issued in accordance with the Indenture (an “Alternate Liquidity Facility”).

Each Alternate Liquidity Facility must:

(1) Be a standby bond purchase agreement or other liquidity device representing an irrevocable, unconditional obligation of a financial institution having capital and surplus of not less than \$50,000,000 or another type of credit facility meeting the requirements of (2) and (3) below;

(2) Subject to the conditions thereof, satisfy the interest coverage requirements of the Indenture; and

(3) Meet the other requirements of the Indenture, as applicable; and

Prior to the replacement of any Liquidity Facility, the following conditions shall have been met:

(1) The Trustee and the Authority shall have received from the Corporation written notice of such replacement and the effective date thereof no later than 45 days (or such shorter time as may be agreed to by the Corporation, the Trustee and the Remarketing Agent) preceding such replacement date;

(2) The Trustee and the Authority shall have received the following no later than the effective date of such replacement:

(i) An opinion of Counsel for the issuer of the Alternate Liquidity Facility (which opinion is to be delivered upon the issuance of the Alternate Liquidity Facility) that such Alternate Liquidity Facility constitutes a legal, valid and binding obligation of the issuer in accordance with its terms;

(ii) A Favorable Opinion with respect to such replacement; and

(iii) The original Alternate Liquidity Facility;

(3) The requirements of the Indenture as to mandatory tender of Bonds for purchase shall have been met to the extent applicable; and

(4) The issuer of the Alternate Liquidity Facility shall have agreed to purchase, and shall purchase on or before the replacement date, from the Liquidity Provider which issued the Liquidity Facility being replaced, any Bonds that are Bank Bonds, at a price equal to the principal amount thereof, plus accrued unpaid interest thereon at the Bank Rate.

The Trustee shall, at least 15 days prior to the proposed replacement of a Liquidity Facility with an Alternate Liquidity Facility, give notice thereof to the Owners of the Bonds by mailing notice to the Owners of such Bonds.

The Bonds shall be subject to mandatory tender for purchase, without limitation, on the date of replacement of a Liquidity Facility with an Alternate Liquidity Facility, or on the date of termination of an existing Liquidity Facility where the Corporation has elected to terminate the existing Liquidity Facility and provide liquidity for the Bonds itself, or, where no Liquidity Facility is then in effect, on the effective date of a new Liquidity Facility where the Corporation elects to provide a new Liquidity Facility from a third party for the Bonds.

After a mandatory purchase of Bonds in anticipation of the expiration of a Liquidity Facility, nothing in the Indenture shall limit the Corporation's right to provide other liquidity enhancement (such as a standby bond purchase agreement or letter of credit not meeting the requirements of the Indenture concerning the provision of an Alternate Liquidity Facility) or no liquidity enhancement for the Bonds; provided that any such liquidity enhancement shall have administrative provisions reasonably satisfactory to the Trustee and the Corporation shall have furnished to the Trustee a Favorable Opinion with respect thereto, and in the event the Corporation elects to terminate the existing Liquidity Facility without providing an Alternate Liquidity Facility, the Corporation shall purchase, on or before the termination date of the existing Liquidity Facility, any Bonds that are Bank Bonds at a price equal to the principal amount thereof, plus accrued, unpaid interest thereon at the Bank Rate.

Any such liquidity facility would not be a guaranty of liquidity for tendered Bonds, and draws under such liquidity facility to pay the purchase price of tendered Bonds may also be subject to various preconditions which would have to be met before the liquidity facility provider would be required to pay the purchase price of any tendered Bonds. Even if the Corporation were to obtain a liquidity facility for the Bonds, the Corporation would still be obligated for the payment of the purchase price of any such Bonds tendered in accordance with the Indenture.

THE BANK

Certain Information Concerning the Bank

KBC Bank N.V., New York Branch ("KBC NYB") is an unincorporated branch of KBC Bank N.V., a naamloze vennootschap (public company of limited liability) organized under the laws of Belgium, whose principal office is located in Brussels, Belgium. KBC Bank N.V. conducts operations through additional offices and agencies in the United States and around the world. Created on June 4, 1998 through the combination of two predecessor Belgian banks, Kredietbank N.V. and CERA Bank C.V., KBC Bank N.V. is subject to regulation by the Belgium Banking Commission and to Belgian banking and accounting law. KBC Bank N.V. maintains its records and prepares its financial statements in accordance with accounting principles generally accepted in Belgium. Such records and financial statements are maintained and prepared in Euro currency (EUR).

One of the largest commercial banks in Belgium, KBC Bank N.V. operates as a universal bank, engaged in commercial and investment banking, and offers comprehensive financial services. In contrast with the two other major Belgian banks, KBC Bank N.V.'s branches in Belgium are located exclusively in Flanders and Brussels. KBC Bank N.V. is

indirectly represented through CBC Banque S.A., a majority-owned subsidiary with branches in the Walloon region and Brussels.

KBC NYB was originally established in 1977 as a New York Branch of Kredietbank N.V., and has been relicensed by the Banking Department of the State of New York as a New York Branch of KBC Bank N.V. to provide a full range of services in New York. In addition to handling foreign exchange transactions, KBC NYB is active in international payment transactions and the clearing of commercial payments and professional transactions in U.S. Dollars. KBC NYB is also involved in providing financial services, particularly credit, for European (including Belgian) companies operating in the United States, as well as for United States corporations.

Selected Consolidated Financial Data of KBC Bank N.V.

Year Ended
December 31, 2003
(EUR Millions)

Total Assets	EUR	225,587
Amounts Owed to Customers		133,581
Loans and Advances to Customers		90,293
Capital and Reserves		9,148
Net Income		1,119

Conversion Rate: As of December 31, 2003, EUR 0.834 = US\$1.00

KBC NYB will provide, upon written request and without charge, a copy of KBC Bank N.V.'s most recent Annual Report. Written requests should be directed to: KBC Bank N.V., New York Branch, 125 West 55th Street, 10th Floor, New York, New York 10019, Attention: Controller.

The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of KBC Bank N.V. since December 31, 2003 or that information contained or referred to under the caption “**THE BANK**” in this Official Statement is current as of any time subsequent to such date.

Limitations

PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE BONDS AND THE LETTER OF CREDIT ARE NOT DEPOSITS OR OBLIGATIONS OF KBC BANK N.V. OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS AND THE LETTER OF CREDIT ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO

CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

OUTSTANDING AND FUTURE INDEBTEDNESS

The Corporation has heretofore incurred indebtedness related to \$62,790,000 Riverside County Public Financing Authority Certificates of Participation (Air Force Village West) Series 1999 (the “1999 Certificates”), of which \$58,120,000 in principal amount remains outstanding as of April 1, 2005.

The obligations of the Corporation with respect to the Reimbursement Obligations will be secured by a pledge of Gross Revenues on a parity with the obligations of the Corporation with respect to the 1999 Certificates. In addition to its obligations with respect to the Bonds, the 1999 Certificates of Participation and the Reimbursement Obligations, the Corporation may incur other indebtedness that may be on a parity with the Corporation’s obligation with respect to the Bonds (“Parity Debt”) if issued for the purposes and subject to the conditions provided in the Loan Agreement and with the Reimbursement Obligations if incurred for the purposes and subject to the conditions provided in the Reimbursement Agreement.

BONDHOLDERS’ RISKS

Because the Bonds are secured by the Initial Letter of Credit, this Official Statement does not contain information relating to the Corporation or its ability to make payments sufficient to pay the principal and purchase price of and interest on the Bonds. The investment decision to purchase the Bonds should be made solely on the basis of the creditworthiness of the Bank, which is issuing the Initial Letter of Credit from which all principal and purchase price of and interest on the Bonds will be paid.

Tax-Exemption

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the Internal Revenue Service (“IRS”). The Authority and the Corporation have covenanted in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest with respect to the Bonds as taxable, possibly retroactive to the date of issuance.

In December 1999, as part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations Division. The new

TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division.

The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Orrick, Herrington & Sutcliffe LLP is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See “**TAX MATTERS**”, below.

Tax-Exempt Status of the Corporation. The tax-exempt status of the interest on the Bonds presently depends upon maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals.

The IRS issued a letter to the effect that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Code and exempt from taxation under Section 501(a) of the Code. In the opinion of counsel to the Corporation, the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Code. As a tax-exempt, charitable organization, the Corporation is subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with these requirements is necessary to maintain the tax-exempt status of the Corporation.

The IRS has issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3) of the Code. Revenue Ruling 72-124 holds that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization operates in a manner designed to satisfy the three primary needs of aged persons. These are the need for housing, the need for health care, and the need for financial security. (1) The need for housing will generally be satisfied if the organization provides residential facilities that are specifically designed to meet some combination of the physical, emotional, recreational, social, religious, and similar needs of aged persons. (2) The need for health care will generally be satisfied if the organization either directly provides some form of health care, or in the alternative, maintains some continuing arrangement with other organizations, designed to maintain the physical, and if necessary, mental well-being of its residents. (3) The need for financial security will generally be satisfied if two conditions exist: (a) the organization is committed to an established policy of maintaining in residence any persons who become unable to pay their regular charges to the extent it can do so without placing itself in financial jeopardy and (b) the organization operates so as to provide its services at the lowest feasible cost, taking into consideration such expenses as the payment of indebtedness, maintenance of adequate reserves and reserves for physical expansion.

Revenue Ruling 79-18 holds that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. That Revenue Ruling also holds that the organization must be

committed, by established policy to maintaining persons as residents, even if they become unable to pay the monthly rental charges after being admitted to the facility.

Neither the opinion of counsel to the Corporation, nor the letter of the IRS to the effect that the Corporation is a tax-exempt organization, is binding upon the Internal Revenue Service or on any court. If the Corporation should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by federal, state or local tax authorities to attempt to subject the Corporation and its revenues to taxation, or to revoke any property tax exemption of the Corporation. The possible modification or repeal of certain existing federal income or state tax laws or other loss by the Corporation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of the Corporation and, thereby, the revenues of the Corporation. In the event that any action initiated by federal, state or local tax authorities to attempt to subject the Corporation and its revenues to taxation is successful, funds available to the Corporation for payments under the Loan Agreement would be adversely affected. The Corporation has covenanted in the Loan Agreement to comply with the requirements necessary to maintain its tax-exempt status.

Currently, the most severe penalty that the IRS may impose under the Code is the revocation of tax-exempt status. Loss of tax-exempt status by the Corporation potentially could result in loss of tax exemption of the interest on the Bonds and default on covenants regarding the Bonds.

Less onerous sanctions have been enacted, which sanctions focus enforcement on private persons who transact business with an exempt organization rather than the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS as mentioned above.

The Corporation may be audited by the IRS. Management believes that it has properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the Corporation, as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds and other tax-exempt debt of the Corporation.

The Bank

There can be no assurance that the credit rating of the Bank will continue at its current level. A decline in the credit rating of the Bank or the issuer of an Alternate Liquidity Facility or an Alternate Credit Facility could result in a decline in any rating that may be assigned to the Bonds from time to time. Such a decline could in turn affect the market price and marketability of the Bonds. For information concerning the Bank, see **“THE BANK.”**

Enforceability of the Initial Letter of Credit

Section 105 of the Bankruptcy Code empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court

decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Trustee under the Liquidity Facility or the Credit Facility or the payment by the Trustee to Bondholders of amounts drawn under the Liquidity Facility or the Credit Facility under various circumstances, including the bankruptcy or insolvency of, or a similar event with respect to, the Corporation or an affiliate of the Corporation.

The Initial Letter of Credit or any subsequent Liquidity Facility or Credit Facility also will not, and is not intended to, protect Bondholders from events affecting the Bank, or such subsequent Liquidity Provider or Credit Provider, or its creditworthiness, including, without limitation, the receivership or insolvency of the Bank.

Enforceability of Remedies

The remedies available to Bondholders upon an Event of Default under the Indenture are in many respects dependent upon judicial action which is subject to discretion or delay. Under existing laws and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified in the Indenture may not be readily available or may be limited. A court may decide not to order specific performance.

The various legal opinions to be delivered concurrently with the original delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws or legal or equitable principles affecting creditors' rights.

LITIGATION

The Authority

There is not now pending or, to the knowledge of the Authority, threatened any litigation restraining or enjoining the issuance or delivery of the Bonds or the application of the proceeds thereof as herein described, or questioning or affecting the validity of the Bonds or the proceedings or authority under which the Bonds are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officials of the Authority to their respective offices is being contested. There is no litigation pending or, to its knowledge, threatened, which in any manner questions the right of the Authority to enter into the Indenture or the Loan Agreement or to secure the Bonds in the manner provided in the Indenture.

The Corporation

As of the date hereof, to the Corporation's knowledge, there is no litigation pending or threatened against the Corporation wherein an unfavorable decision would adversely affect the ability of the Corporation to carry out its obligations under the Loan Agreement, or would have a material adverse impact on the financial position or operations of the Corporation.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the 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 is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in **APPENDIX C** hereto.

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 Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. The opinion of Bond Counsel also assumes that actions of the Corporation, the Authority and other persons taken subsequent to the date of issuance of the Bonds will not cause any of the Bonds to exceed the \$150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities, as set forth in Section 145(b) of the Code. 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) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code will not adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel has relied on the opinion of Counsel to the Corporation regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code and the use of the facilities financed and refinanced with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of Counsel to the Corporation is subject to a number of qualifications and limitations. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed and refinanced facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds. Neither Bond Counsel nor Counsel to the Corporation can give any assurance that future activities of the Corporation, or future changes to the Code or the applicable regulations or the interpretation or enforcement by the Internal Revenue Service will not adversely affect the qualification of the Corporation as

organizations described in Section 501(c)(3) of the Code or the conclusions that bond-financed and refinanced facilities are not being used in an unrelated trade or business activity of the Corporation within the meaning of Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed or refinanced facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in federal gross income for federal income tax purposes, possibly from the date of the original issuance of the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 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 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 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 Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend 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.

No assurance can be given that future legislation or clarification of the Code, if enacted into law, will not cause interest on the 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. No assurance can be given that the introduction or enactment of any such future legislation or clarification of the Code will not affect the market price for or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion. Further, no assurance can be given that any action of the Internal Revenue Service ("IRS"), including but not limited to selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or bonds which present similar tax issues, will not affect the market price for or marketability of the Bonds.

The opinion of Bond Counsel is based on current legal authority and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and the Corporation, including the Beneficial Owners, will have little if any right to participate in the 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 Authority or the Corporation legitimately disagree, may not be practical. If such a situation arises, the Authority, the Corporation or the Beneficial Owners may incur significant expense, loss of market value to the Beneficial Owners, or both.

LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel Opinion is contained in **APPENDIX C** hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by its special counsel, Nixon Peabody LLP, San Francisco, California, for the Corporation by its counsel, Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, for the Bank with respect to the Initial Letter of Credit by its counsel, Ballard, Spahr, Andrews & Ingersoll, Philadelphia, Pennsylvania and its Belgian counsel, Linklater, De Bandt, Brussels, Belgium, and for the Underwriter by its counsel, Holland & Knight LLP, San Francisco, California. Neither Bond Counsel nor Special Counsel to the Authority nor counsel to the Bank undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

RATING

It is anticipated that Moody's Investors Service, Inc. ("Moody's") will assign its municipal bond rating of "Aa3/VMIG-1" to the Bonds, contingent upon the issuance of the Letter of Credit. Any explanation of the significance of such rating may be obtained only from Moody's. Certain information and materials not included in this Official Statement were furnished to Moody's concerning the Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain for any given period of time or that such rating might not be lowered or withdrawn entirely by Moody's if, in its judgment, circumstances so warrant. The Underwriter has no responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the ratings on the Bonds. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriter has agreed to purchase the Bonds for a purchase price of \$22,770,000, representing the principal amount of the Bonds less an underwriting discount of \$230,000. The bond purchase agreement provides that the Corporation will indemnify the Underwriter and the Authority against losses, claims, damages and liabilities arising out of any materially incorrect statement or information with respect to the Corporation contained in or material information omitted from this Official Statement.

NO REQUIREMENT FOR SECONDARY MARKET DISCLOSURE

Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended, generally requires that "obligated persons" such as the Corporation provide (i)

continuing disclosure on an annual basis of financial information and operating data and (ii) notices of certain specified events that could affect the credit underlying the payment obligations of municipal securities. Offerings of municipal securities that are issued in minimum denominations of \$100,000 and are subject to purchase on the demand of the holder, such as will be the case with respect to the Bonds, while bearing interest in the Weekly Mode, are exempt from the requirements of Rule 15c2-12. If the Bonds are remarketed in the Term Mode, the Fixed Rate Mode or the Dutch-Auction Mode, the Corporation shall in the future become subject to the continuing disclosure obligations of Rule 15c2-12 with respect to the Bonds. The Authority has no continuing disclosure obligation with respect to the Bonds.

MISCELLANEOUS

Any statement herein involving matters of opinion whether or not expressly so stated, are intended as such and not as representations of fact.

The Corporation has furnished the information herein relating to the Corporation and the Facilities. The Authority has furnished only the information included herein under the section entitled “**THE AUTHORITY**” and “**LITIGATION – The Authority**” herein.

The foregoing references to and summaries or descriptions of provisions of the Bonds, the Remarketing Agreement, the Loan Agreement, the Indenture and all references to other materials not stated to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Copies of the Remarketing Agreement, the Loan Agreement and the Indenture may be obtained from the Trustee as set forth herein under “**INTRODUCTORY STATEMENT.**”

The attached **APPENDICES** are integral parts of this Official Statement and should be read in their entirety together with the foregoing statements.

The agreement between the Authority and the owners of the Bonds is fully set forth in the Indenture, and neither any advertisement for the Bonds nor this Official Statement is to be construed as constituting an agreement with the owners of the Bonds.

The Authority and the Corporation have authorized the execution and delivery of this Official Statement.

**ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS**

AIR FORCE VILLAGE WEST, INC.

By: /s/ Joseph Chan
Name: Joseph Chan
Title: Chief Financial Officer

By: /s/ Charles W. Lamb
Name: Charles W. Lamb
Title: President/CEO

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APPENDIX A
SUMMARY OF LEGAL DOCUMENTS

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APPENDIX A

SUMMARY OF LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Loan Agreement relating to the Bonds. It is not a comprehensive explanation of all terms and conditions governing the Bonds.

The following summarizes certain defined terms and provisions of the Indenture and the Loan Agreement. These summaries do not purport to be complete and reference is made to the Indenture and the Loan Agreement for full and complete statements of all such provisions.

DEFINITIONS OF CERTAIN DEFINED TERMS

Except as otherwise provided herein, for purposes of this Official Statement, including this Summary of Legal Documents, the following terms shall have the meanings set forth below:

“501(c)(3) Organization” means an organization described in Section 501(c)(3) of the Code.

“Act” means the Joint Exercise of Powers Act, constituting Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State.

“Additional Payments” shall have the meaning given such term in the Loan Agreement.

“Affiliate” means any Person which (a) directly or indirectly controls or is controlled by, or is under common control with, the Corporation, or (b) is a supporting organization, as such term is used in connection with Section 509(a)(3) of the Internal Revenue Code of 1986, as amended, of the Corporation or an Affiliate. For the purposes of this definition, “control” (including the terms “controlling”, “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Corporation or the Governing Body of the Corporation, or of the Person or the Governing Body of the Person, whether through stock ownership, membership, voting rights, governing boards, committees, divisions or other bodies with one or more common members, or by contract or otherwise.

“Alternate Credit Facility” means the Credit Facility issued in accordance with the Indenture to replace an existing Credit Facility.

“Alternate Liquidity Facility” means the Liquidity Facility or other liquidity device issued in accordance with the Indenture to replace an existing Liquidity Facility; provided, however, that “Alternate Liquidity Facility” may include an agreement by the Corporation to provide liquidity if the requirements of the Indenture are met.

“Alternate Rate” means for a Bond in a particular Mode, the following as the same shall be applied in accordance with the provisions of the Indenture:

(i) For a Bond in the Commercial Paper Mode, the Lehman Brothers Tax Exempt Commercial Paper Index.

(ii) For a Bond in the Daily Mode, the last lawful interest rate for such Bond set by a Remarketing Agent pursuant to the Indenture.

(iii) For a Bond in the Weekly Mode, the BMA Municipal Swap Index.

(iv) For a Bond in the Term Mode, the Alternate Term Rate.

(v) For a Bond in the Dutch-Auction Mode, the interest rate established pursuant to Exhibit B of the Indenture.

“Alternate Term Rate” means for a Bond in the Term Mode, an index published or provided by Kenny Information Systems, which index is based on yield evaluations at par of bonds, the interest on which is excluded from gross income for purposes of Federal income taxation and are not subject to a “minimum tax” or similar tax under the Code (unless all tax-exempt bonds are subject to such tax). The bonds upon which the index is based shall include not less than five “high grade” component issuers selected by Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation.

“Audited Financial Statements” means financial statements prepared in accordance with GAAP which have been examined and reported on by an independent certified public accountant.

“Authority” means ABAG Finance Authority for Nonprofit Corporations, or its successors and assigns.

“Authorized Denominations” means (i) with respect to Bonds in a Daily Mode, Weekly Mode or Commercial Paper Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof, (ii) with respect to Bonds in a Term Mode or a Fixed Rate Mode, \$5,000 and any integral multiple thereof, and (iii) with respect to Bonds in a Dutch-Auction Mode, \$25,000 and integral multiples thereof.

“Available Moneys” means (i) proceeds of a drawing under the Credit Facility or Liquidity Facility and proceeds of any remarketing of Bonds delivered by a Remarketing Agent to the Paying Agent under the Indenture (other than proceeds received from the Authority, the Corporation or an Affiliate of either); provided that when used with respect to payment of amounts due in respect of any Bank Bonds or Corporation Bonds, “Available Moneys” means any moneys held by the Paying Agent or the Trustee and available for such payment pursuant to the terms of the Indenture, except for moneys drawn under the Credit Facility or Liquidity Facility; (ii) moneys paid to the Trustee by the Corporation and held in a segregated subaccount

of the General Account within the Bond Fund for at least 124 consecutive days during which no petition in bankruptcy under the United States Bankruptcy Code (the “Bankruptcy Code”) has been filed by or against the entity which paid such money and no similar proceedings have been instituted under state insolvency or other laws affecting creditors’ rights generally; (iii) refunding bond proceeds; or (iv) any moneys with respect to which an unqualified Opinion from nationally recognized Counsel has been received stating that such payments to Bondholders would not constitute voidable preferences under Section 547 of the Bankruptcy Code, or similar state or federal laws with voidable preference provisions in the event of the filing of a petition for relief under the Bankruptcy Code, or similar state or federal laws with voidable preference provisions by or against the entity from whom the money is received.

“Bank” means KBC Bank N.V., acting through its New York Branch, as issuer of the initial Credit Facility and the initial Liquidity Facility, and its successors and assigns.

“Bank Bonds” shall have the meaning specified in the Indenture.

“Bank Rate” means (a) so long as KBC Bank N.V., New York Branch is the Liquidity Provider, the interest rate equal to the interest rate required to be paid on Bank Bonds pursuant to Section 3.02(b) of the Reimbursement Agreement; and (b) thereafter, a rate mutually agreed to by the Liquidity Provider and the Corporation as the Bank Rate, of which notice is given to the Trustee in accordance with the Indenture. The Bank Rate and the components thereof shall be calculated for the actual number of days elapsed on the basis of a 360-day year. Each determination of the Bank Rate shall be made by the Liquidity Provider and shall be conclusive and binding upon the Corporation absent manifest error.

“BMA Municipal Swap Index” means, with respect to any Bond in the Weekly Mode for which a rate is not set pursuant to the Indenture, the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the Indexing Agent which meet specific criteria established by the Bond Market Association, formerly known as the Public Securities Association. In the event the Indexing Agent no longer publishes an index satisfying the requirements of the preceding sentence, the rate shall be the “J.J. Kenny Index”, provided, however, that if the J.J. Kenny Index also ceases to be published, an alternative index shall be calculated by an entity selected in good faith by the Corporation, and shall be determined using the criteria for the BMA Municipal Swap Index.

“Bond Counsel” means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to obligations issued by states and their political subdivisions and the exclusion of interest thereon from gross income for federal income tax purposes, appointed by the Authority and consented to by the Corporation.

“Bondholders,” “Bondowner” or “Owner” means the registered owner of any Bond.

“Bond Fund” means the fund so designated established pursuant to the Indenture.

“Bond Register” shall have the meaning specified in the Indenture.

“Bonds” means the Authority’s Variable Rate Demand Revenue Bonds, Series 2005 (Air Force Village West, Inc.).

“Bond Year” means, in the case of the first Bond Year, the period ending April 14, 2006, and in the case of each successive Bond Year thereafter, the one-year period ending each April 14; provided, however, that the Authority, at the direction of the Corporation, may select a different Bond Year prior to the fifth anniversary date of the Bonds.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions in New York, New York, St. Paul, Minnesota, Los Angeles, California or in any other city in which the Office of the Trustee, the Paying Agent, a Remarketing Agent, the Credit Provider or the Liquidity Provider is located are required or authorized by law (including executive order) to close or on which the Office of the Trustee, the Paying Agent, a Remarketing Agent, the Credit Provider or the Liquidity Provider is closed for reasons not related to financial condition or (iii) a day on which the New York Stock Exchange is closed or (iv) a day which is not a Business Day as defined in the Credit Facility.

“Certified Public Accountant” means any certified public accounting firm selected by the Corporation recognized as an expert in the auditing of financial statements for retirement facilities.

“Clearing Fund” means the fund so designated established pursuant to the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, and all regulations thereunder as they may exist from time to time. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code.

“Commercial Paper Bond” means any Bond which is in the Commercial Paper Mode.

“Commercial Paper Mode” means, with respect to a particular Bond, the Mode during which such Bond bears interest at a Commercial Paper Rate.

“Commercial Paper Rate” means the interest rate (per annum) on any Bond in the Commercial Paper Mode determined pursuant to the Indenture.

“Continuing Disclosure Agreement” means a written agreement or undertaking entered into by the Corporation for the benefit of the owners of the Bonds pursuant to which the Corporation agrees to file the information and notices required by SEC Rule 15c2-12 (or any successor provision).

“Conversion Date” means with respect to any Bond in a particular Mode, the day on which another Mode for such Bond begins.

“Corporate Trust Office” means, with respect to the Trustee, the office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, CA 90071, provided, however, that with respect to the Trustee acting as Paying Agent and Bond registrar, payments on the Bonds and any exchange, transfer, tender or surrender of the Bonds, means the office of the Trustee at U.S.

Bank National Association, 60 Livingston Avenue, St. Paul, MN 55107, or such other or additional offices as may be specified by the Trustee or the Paying Agent.

“Corporation” means Air Force Village West, Inc., a California nonprofit public benefit corporation, and its successors and assigns.

“Corporation Bonds” means any Bonds of which ownership is registered in the name of the Corporation or any Affiliate, other than Bank Bonds.

“Corporation Purchase Account” means the special trust account so designated established by the Paying Agent pursuant to the Indenture.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of Bonds, including but not limited to costs of preparation and reproduction of documents, fees and expenses of the Authority (the Authority’s initial bond administration fee), printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, including fees and charges of counsel to the Authority, the Trustee, the initial Credit Provider for the Bonds and Bond Counsel, rating agency fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Cost of the Project” or “Costs of the Project” means any cost of the Project.

“Counsel” means an attorney at law or law firm (who may be counsel for the Authority or the Corporation) not unsatisfactory to the Trustee.

“County” means the County of Riverside, California.

“Credit Facility” means a letter of credit, municipal bond insurance policy or other form of credit enhancement for the Bonds which provides for payment of principal of and interest on the Bonds in the Event of a Default and, if the Credit Facility is a letter of credit, payment of principal of and interest on the Bonds on each Interest Payment Date, including any Alternate Credit Facility. Initially the term “Credit Facility” shall refer to Irrevocable Letter of Credit issued by the Bank.

“Credit Provider” means any entity issuing the Credit Facility to secure the Bonds. Initially the Credit Provider shall be the Bank.

“Daily Mode” means the Mode during which all or any part of the Bonds bear interest at the Daily Rate.

“Daily Rate” means the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Indenture.

“Deed of Trust” means that Deed of Trust Security Agreement and Fixture Filing made as of June 1, 1999, by the Corporation to Chicago Title Company for the benefit of the 1999 Trustee (as assignee of the Riverside County Public Financing Authority), as supplemented by

that Supplemental Deed of Trust with Fixture Filing and Security Agreement, made as of April 6, 2004, by the Corporation to Chicago Title Insurance Company for the benefit of Morgan Stanley Capital Services, Inc., as holder of a Parity Financial Products Agreement (as defined in the 1999 Sale Agreement), as further supplemented by that Second Supplement and Modification of Deed of Trust, Security Agreement and Fixture Filing, made as of March 1, 2004, by the Corporation and accepted by the 1999 Trustee, Morgan Stanley Capital Services, Inc. and Chicago Title Company as such deed of trust may be further supplemented from time to time, securing the 1999 Sale Agreement, the Loan Agreement, the Reimbursement Agreement and any other Parity Debt and Parity Debt Financial Products Agreement incurred or entered into from time to time by the Corporation.

“Differential Interest Amount” has the meaning ascribed thereto in the Liquidity Facility.

“DTC” means The Depository Trust Company (a limited purpose trust company), New York, New York.

“Dutch-Auction” means any security where interest rates are periodically reset by an auction mechanism as provided for in Exhibit B of the Indenture.

“Dutch-Auction Mode” means, with respect to a particular Bond, the Mode during which such Bond bears interest at a Dutch-Auction Rate.

“Dutch-Auction Rate” means the rate of interest on any Bond in the Dutch-Auction Mode determined pursuant to the auction procedures set forth in Exhibit B of the Indenture.

“Electronic Means” means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

“Entrance Fees” shall have the meaning give such term in the 1999 Sale Agreement.

“Environmental Regulations” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

“Expiration Date” means the stated expiration date of the Liquidity Facility or the Credit Facility, as such date may be extended from time to time by the Liquidity Provider or Credit Provider (as applicable).

“Expiration Tender Date” means the date specified for mandatory tender for purchase pursuant to the Indenture.

“Extraordinary Redemption” means a redemption of Bonds pursuant to the Indenture.

“Event of Default” means any of the events specified in the Indenture to be an Event of Default.

“Facilities” has the meaning given such term in the 1999 Sale Agreement.

“Favorable Opinion” means an opinion of nationally recognized Bond Counsel to the effect that (i) the action proposed to be taken is permitted by the Indenture and (ii) such action will not, in and of itself, result in the inclusion in gross income of interest on the Bonds for purposes of federal income taxation.

“Financial Products Agreement” means an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Trustee in a Statement of the Corporation as a Financial Products Agreement having been entered into by the Corporation with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Statement of the Corporation) for the purpose of (1) reducing or otherwise managing the Corporation's risk of interest rate changes or (2) effectively converting the Corporation's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

“Financial Statements” means the audited, consolidated or combined financial statements of the Corporation.

“Fiscal Year” means that period adopted by the Corporation as its annual accounting period, initially January 1 through December 31.

“Fitch” means Fitch IBCA, Inc., a nationally recognized bond rating agency, and its successors and assigns.

“Fixed Rate” means the rate of interest borne by the Bonds determined pursuant to the Indenture.

“Fixed Rate Mode” means the Mode of bearing interest on the Bonds at a Fixed Rate.

“Guarantee” means all loan commitments or other obligations of the Corporation, guaranteeing in any manner, whether directly or indirectly, any obligation of any other Person, which obligation of such other Person would constitute Indebtedness if such obligation were the obligation of the Corporation.

“Generally Accepted Accounting Principles” or “GAAP” means those accounting principles applicable in the preparation of financial statements of facilities of the same or similar character as the Facilities or of other persons of the same or similar character of the Corporation or the Authority, as the case requires, including, without limitation, those promulgated by the Financial Accounting Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants.

“General Account” means the account so designated established pursuant to the Indenture in the Bond Fund with the Trustee.

“General Debt Service Account” means the account so designated established pursuant to the Indenture in the Bond Fund with the Paying Agent.

“Governing Body” means, when used with respect to the Corporation, its board of directors, board of trustees, or other board or group of persons in which the powers of such Corporation are vested.

“Government Obligations” means the following:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America;

(b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in clause (a) above issued or held in book-entry form in the name of the Trustee only on the books of the Department of Treasury of the United States of America);

(c) any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in clause (a) or (b) above, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian;

(d) stripped obligations of interest issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”), the interest on which, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to FIRREA; and

(e) obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that cash, obligations described in clause (a), (b), (c) or (d) above, or a combination thereof have been irrevocably pledged to and deposited into a segregated escrow account for the payment when due of the principal or redemption price of and interest on such obligations, and provided further that, at the time of purchase, such obligations are rated by the Rating Service in its highest rating category.

“Governmental Unit” shall have the meaning set forth in Section 150 of the Code.

“Gross Revenue Account” means the fund by that name established pursuant to the Loan Agreement.

“Gross Revenues” means all revenues, income, receipts and money received in any period by the Corporation (other than Entrance Fees required to be set aside in escrow funds pursuant to the laws of the State of California, Prospective Resident Deposits and donor-restricted gifts, grants, bequests, donations and contributions), including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from its operation and possession of and pertaining to its properties, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations or contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for payments on any Parity Debt, payments required under any Parity Financial Products

Agreements or operating expenses, (c) proceeds with respect to, arising from, or relating to its properties and derived from (i) insurance (including business interruption insurance) or condemnation proceeds, (ii) accounts, including, but not limited to, accounts receivable, (iii) securities and other investments, (iv) inventory and intangible property, (v) payment/reimbursement programs and agreements, and (vi) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (d) rentals received from the lease of the Corporation's properties or space in its facilities.

"Hazardous Substances" means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq. and the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

"Immediate Termination Event" means any event relating to the Liquidity Provider which results in the immediate termination or suspension of the Liquidity Provider's obligation to purchase Bonds or provide funds for the purchase of Bonds pursuant to the Liquidity Facility.

"Indebtedness" means all Guarantees and obligations for borrowed money, installment sales and capitalized lease obligations, incurred or assumed by the Corporation, including Long-Term Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

"Indenture" means the Indenture as amended or supplemented at the time in question.

"Indexing Agent" means Municipal Market Data, Boston, Massachusetts, a Thompson Financial Services Company, or its successor.

"Interest Accrual Period" means the period during which a Bond accrues interest payable on any Interest Payment Date applicable thereto. With respect to Bonds in the Daily Mode, the Interest Accrual Period shall commence on (and include) the first day of each month and shall extend through (and include) the last day of such month; provided, that if such month is the

month in which the Bonds are authenticated and delivered, or if the Bonds are changed to the Daily Mode during such month, the Interest Accrual Period shall commence on the date of authentication and delivery of the Bonds or the Conversion Date, as the case may be; provided, further, that if no interest has been paid on Bonds in the Daily Mode, interest shall accrue from the date of original authentication and delivery of the Bonds or the Conversion Date, as appropriate. With respect to a Bond in a Mode other than the Daily Mode, the Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of such Bond, or the Conversion Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Bond, interest is in default or overdue on the Bonds, such Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Bonds.

“Interest Payment Date” means each date on which interest is to be paid and is: (i) with respect to a Commercial Paper Bond, the Purchase Date; (ii) with respect to a Bond in the Daily Mode, the fifth Business Day of each month; (iii) with respect to a Bond in the Weekly Mode, the first Business Day of each month; (iv) with respect to a Bond in the Term Mode, each Term Rate Interest Payment Date for such Bond; (v) with respect to a Bond in the Fixed Rate Mode, each Stated Interest Payment Date (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of the Fixed Rate Mode for such Bond); (vi) with respect to Bank Bonds, the dates required under the applicable Liquidity Facility (or any reimbursement agreement entered into with respect to the Liquidity Facility that is a letter of credit, including the initial Reimbursement Agreement in the case of the initial Liquidity Facility); (vii) (without duplication of any Interest Payment Date listed above) any Conversion Date and each Maturity Date; and (viii) with respect to a Bond in the Dutch-Auction Mode, the “Interest Payment Date” as defined in Exhibit B to the Indenture.

“Interest Period” means, for a Bond in a particular Mode, the period of time that such Bond bears interest at the rate (per annum) which becomes effective at the beginning of such period. The Interest Period for each Mode is as follows:

(i) for a Bond in the Commercial Paper Mode, the period of from one to 360 calendar days as established by a Remarketing Agent pursuant to the Indenture;

(ii) for a Bond in the Daily Mode, the period from (and including) the Conversion Date upon which such Bond is changed to the Daily Mode to (but excluding) the next Rate Determination Date for such Bond, and thereafter the period from and including the current Rate Determination Date for such Bond to (but excluding) the next Rate Determination Date for such Bond;

(iii) for a Bond in the Weekly Mode, the period from (and including) the Conversion Date upon which such Bond is changed to the Weekly Mode to (and including) the next Wednesday, and thereafter the period from (and including) each Thursday to (and including) the next Wednesday;

(iv) for a Bond in the Term Mode, the period from (and including) the Conversion Date to and including the last day of the first period that such Bond shall be in the Term Mode as established by the Corporation for such Bond pursuant to the Indenture and, thereafter, the period from (and including) the beginning date of each successive interest rate period selected for such Bond by the Corporation pursuant to the Indenture while it is in the Term Mode to (and including) the ending date for such period selected for such Bond by the Corporation. Each Interest Period for a Bond in the Term Mode shall end on a Stated Interest Payment Date occurring not earlier than three months after the commencement of such Period;

(v) a Bond in the Fixed Rate Mode, the period from (and including) the Conversion Date to (and including) the Maturity Date for the Bonds; and

(vi) for a Bond in the Dutch-Auction Mode, as set forth in Exhibit B to the Indenture.

“Interest Rate Swap Agreement” means, without limitation, any contract known as, referred to as, or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract.

“Issue Date” means the date of original issuance of the Bonds.

“J.J. Kenny Index” means with respect to a Bond in the Weekly Mode for which a rate is not, or cannot be, set pursuant to the Indenture, the index generally made available on the applicable Rate Determination Date by Kenny Information Systems or any successor thereto. The J.J. Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is exempt from Federal income taxation under the Code, of not less than five “high grade” component issuers selected by the Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Kenny Information Systems in its discretion. The bonds on which the J.J. Kenny Index is based shall not include any bonds the interest on which is subject to a “minimum tax” or similar tax under the Code, unless all tax-exempt bonds are subject to such tax.

“Letter of Credit Debt Service Account” means the account so designated authorized to be established pursuant to the Indenture in the Bond Fund with the Paying Agent.

“Liquidity Facility” means a standby bond purchase agreement, letter of credit or other liquidity device issued in accordance with the Indenture, including any Alternate Liquidity Facility. Initially the term “Liquidity Facility” shall refer to Irrevocable Letter of Credit issued by the Bank.

“Liquidity Facility Interest Amount” means the amount of the interest portion of the Liquidity Facility, which (i) during the Weekly Mode shall be an amount equal to 46 days’ interest on the Outstanding Bonds calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, (ii) during the Daily Mode shall be an amount equal to 52 days’ interest on the Outstanding Bonds calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, (iii) during the Term Mode shall be an amount equal to 193 days’ interest on the Outstanding Bonds then covered by the Liquidity Facility, calculated at the Maximum Rate on the basis of a 360-day year composed of twelve 30

day months, and (iv) during the Commercial Paper Mode, shall be an amount equal to that number of days interest on the Outstanding Bonds calculated at the Maximum Rate on a basis of a 365-day year for the actual number of days elapsed, as is provided for in the Liquidity Facility securing such Bonds, but in no event shall such number of days be less than the number of days contained in the Interest Period established by the Corporation for Bonds in a Commercial Paper Mode.

“Liquidity Facility Purchase Account” means the special trust account so designated established by the Paying Agent pursuant to the Indenture.

“Liquidity Provider” means the Bank or other financial institution issuing the Liquidity Facility with respect to the Bonds.

“Loan” means the loan to the Corporation by the Authority, concurrently with the issuance of the Bonds, of the gross proceeds from the sale of the Bonds for the purpose of financing the Project.

“Loan Agreement” means the Loan Agreement between the Authority, as lender, and the Corporation, as borrower, dated as of April 1, 2005.

“Loan Payments” means the payments received or receivable by the Authority from the Corporation with respect to the Bonds pursuant to the Loan Agreement (except for the Unassigned Rights).

“Long Term Indebtedness” means all (unless the context provides otherwise) Indebtedness incurred or assumed by the Corporation for any of the following:

(a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(b) Payments under leases which are capitalized in accordance with generally accepted accounting principles; and

(c) Payments under installment purchase contracts having an original term in excess of one year, notwithstanding the fact that payments in respect thereof (whether installment, serial maturity or sinking fund or otherwise) are required to be made less than one year after the date of creation thereof,

excluding any Indebtedness which is renewable or extendable pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement.

“Mandatory Purchase Date” means (i) for Bonds in the Commercial Paper Mode, the last day of the Interest Period for such Bond; (ii) any Conversion Date; (iii) with respect to any mandatory tender for purchase pursuant to the Indenture, the Expiration Tender Date as defined

in the Indenture or any other date specified for mandatory tender for purchase pursuant to the Indenture; and (iv) with respect to any mandatory tender for purchase pursuant to the Indenture in the case of Bonds which are to be purchased in anticipation of the provision or termination of the Liquidity Facility by the Corporation, the mandatory purchase date as set forth in the Indenture.

“Material Adverse Effect” means a material adverse effect on the business, operations, condition (financial or otherwise) or prospects of the Corporation.

“Maturity Date” means May 15, 2035 and, upon a change to the Fixed Rate Mode, any serial Maturity Date established pursuant to the Indenture.

“Maximum Rate” means, subject to the applicable legal limitations (i) with respect to Bonds in a Daily Mode, Weekly Mode, or Commercial Paper Mode, 10%; (ii) with respect to Bonds in the Dutch-Auction Mode, the Maximum Interest Rate as defined in Exhibit B; (iii) with respect to Bonds in a Term Mode, the lesser of (a) 10% or (b) if the Liquidity Facility is in effect, the per annum interest rate used to calculate the Liquidity Facility Interest Amount applicable to such Bonds; and (iv) with respect to Bonds in the Fixed Rate Mode, 12% per annum.

“Mode Change Date” has the meaning ascribed thereto in the Indenture.

“Moody’s” means Moody’s Investors Service, a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Corporation.

“Net Proceeds” means proceeds (net of all expenses, including all attorneys’ fees, incurred in the collection thereof) from insurance, condemnation awards (or other similar amounts) received as a result of any damage to, destruction or taking under the power of eminent domain of the Facilities.

“1999 Certificates” means the outstanding certificates of participation evidencing undivided ownership interests of the holders thereof in installment payments to be paid by the Riverside County Public Financing Authority to the Corporation.

“1999 Sale Agreement” means the installment sale agreement, dated as of June 1, 1999, between the Riverside County Public Financing Authority and the Corporation, as it may from time to time be amended or supplemented in accordance with the provisions thereof.

“1999 Trust Agreement” means the Trust Agreement, dated as of June 1, 1999, among Riverside County Public Financing Authority, the Corporation and the 1999 Trustee, as it may from time to time be amended or supplemented in accordance with the provisions thereof, pursuant to which the 1999 Certificates were delivered and are outstanding.

“1999 Trustee” means U.S. Bank National Association, as trustee under the 1999 Trust Agreement and its successors in such capacity.

“Notice Parties” means the Authority, the Credit Provider, the Liquidity Provider, if any, the Corporation, the Trustee, a Remarketing Agent, and the Paying Agent.

“Office” of an entity means its office at the address set forth in the Indenture, or any other office designated in writing by such entity to the Authority, the Trustee, the Paying Agent, a Remarketing Agent, the Corporation, the Liquidity Provider and the Credit Provider as the Office of such entity for purposes of the Indenture; provided that, for the purposes of the definition of “Business Day” in the Indenture, the Office of the Trustee shall be its designated office in Los Angeles, California as set forth in the Indenture, the Payment Office and the Delivery Office of the Paying Agent shall be its designated offices as set forth in the Indenture, the Office of the Credit Provider shall be its office at which drawing documents are required to be presented under the Credit Facility and the Office of the Liquidity Provider shall be its office at which drawing documents are required to be presented under the Liquidity Facility.

“Officer’s Certificate” means a certificate signed by the chairman of the Governing Body, or the president or chief executive officer, the executive director, the associate executive director, or the chief financial officer of the Corporation, or such other person as may be designated by resolution of the Governing Body.

Each Officer’s Certificate presented under the Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of) the Indenture, and shall incorporate by reference and use in all appropriate instances all terms defined in the Indenture. Each Officer’s Certificate shall state (i) whether the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (ii) that it is being delivered together with any options, schedules, statements or other documents required in connection therewith.

“Opinion of Bond Counsel” means an opinion in writing signed by Bond Counsel.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys who may be counsel for the Corporation.

“Outstanding”, in connection with Bonds means, as of the time in question, all Bonds authenticated and delivered under the Indenture, except:

- (a) Bonds theretofore canceled or required to be canceled under the Indenture;
- (b) On or after any purchase date for Bonds to be purchased pursuant to the Indenture, all Undelivered Bonds which are purchased on such date, provided that funds sufficient for such purchase are on deposit with the Paying Agent;
- (c) Bonds which are deemed paid in accordance with the Indenture; and
- (d) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the Owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Indenture or of the Loan Agreement, Corporation Bonds and any other Bonds which the Trustee knows to be owned by the Corporation or an Affiliate (unless all of the Outstanding Bonds are then Corporation Bonds) shall be disregarded for the purpose of any such determination.

“Owner,” “Bondholders” or “Bondowner” means the registered owner of a Bond.

“Parity Debt” means (1) the obligations of the Corporation under the 1999 Sale Agreement, (2) the obligations of the Corporation under the Loan Agreement, (3) the obligations of the Corporation under the Reimbursement Agreement and (4) any Indebtedness which is incurred by the Corporation in accordance with the provisions of the Loan Agreement and secured on a parity basis with the obligations of the Corporation under the 1999 Sale Agreement, the Loan Agreement, the Reimbursement Agreement and any Parity Financial Products Agreements by the pledge of Gross Revenues under the Loan Agreement and the lien of the Deed of Trust.

“Parity Financial Products Agreement” means an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Trustee in a Statement of the Corporation as a Parity Financial Products Agreement having been entered into by the Corporation with a Qualified Provider for the purpose of (1) reducing or otherwise managing the Corporation’s risk of interest rate changes or (2) effectively converting the Corporation’s interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure, secured on a parity basis with Parity Debt by the pledge of Gross Revenues under the Loan Agreement and the lien of the Deed of Trust. As of the date of issuance of the Bonds, there is one outstanding Parity Financial Products Agreement consisting of an ISDA Master Agreement and related schedule and confirmation, each dated April 6, 2004, between the Corporation and Morgan Stanley Capital Services, Inc.

“Paying Agent” means any national banking association, bank and trust company or trust company appointed as such by the Authority and accepting such appointment for the time being pursuant to the Indenture. The initial Paying Agent is U.S. Bank National Association, a national banking association having a corporate trust office in St. Paul, Minnesota, acting not in its individual capacity but solely as a Paying Agent under the Indenture for the benefit of the Bondholders, and its successor or successors and any corporation or association, including a corporation or association to which the Paying Agent shall sell or otherwise transfer all or substantially all of its corporate trust business subject to the Indenture, resulting from or surviving any consolidation or merger to which it or its successor(s) may be a party and any other corporation or association, which may at any time be substituted in its place as successor Paying Agent pursuant to the Indenture or otherwise. The initial “Payment Office of the Paying Agent” means the office of the Paying Agent in St. Paul, Minnesota (which office at the time of the execution of the Indenture is the address set forth in the Indenture) and shall include such office as any successor Paying Agent may designate.

“Person” shall include an individual, association, unincorporated organization, a corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

“Project” means, collectively, (i) financing and/or reimbursing the Corporation for certain capital expenditures for improvements to multi-level retirement facilities known as Air Force Village West, Inc.; and (ii) financing all or a portion of the costs of issuance of the Bonds including, without limitation, the costs of obtaining credit enhancement and liquidity support for the Bonds.

“Project Fund” means the fund so designated established pursuant to the Indenture.

“Prospective Resident Deposits” shall have the meaning given such term in the 1999 Sale Agreement.

“Purchase Date” means (i) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Owner of said Bond pursuant to the provisions of the Indenture; and (ii) for a Bond in the Term Mode, the last day of the Interest Period for such Bond (or the next Business Day is such last day is not a Business Day), but only if the Owner thereof shall have elected to have such Bond purchased on such date pursuant to the Indenture.

“Purchase Price” means an amount equal to the principal amount of Bonds purchased on any Purchase Date or Mandatory Purchase Date, plus accrued interest, if any, to the Purchase Date or Mandatory Purchase Date, as applicable, unless such Purchase Date is an Interest Payment Date in which case the Purchase Price shall be equal to the principal amount of Bonds purchased on such date.

“Qualified Financial Institution” means (a) any United States domestic institution which is a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, or a member of the National Association of Securities Dealers, Inc. whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within one of the three highest rating categories by the Rating Service or which has issued a letter of credit, contract, agreement or surety bond in support of debt obligations which have been so rated; (b) an insurance company or corporation with a claims paying ability whose unsecured obligations or uncollateralized long-term obligations have been assigned a rating within one of the three highest rating categories by the Rating Service or whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within one of the three highest rating categories by the Rating Service; or (c) any non-United States domestic banking institution whose unsecured obligations or uncollateralized long-term debt obligations have been assigned a rating within one of the three highest rating categories by the Rating Service.

“Qualified Investments” means, to the extent permitted by applicable law, with respect to the investment of moneys held in funds and accounts created pursuant to the Indenture, investments in any of the following:

- (a) Government Obligations;

(b) Direct obligations of, or obligations guaranteed by, any agency or instrumentality of the United States of America, whether or not the full faith and credit of the United States of America is pledged to the full and timely payment of all interest and principal thereof, including, without limitation:

(i) Participation certificates and direct obligations of the Federal Home Loan Mortgage Corporation and the Federal Housing Administration;

(ii) Consolidated debt obligations, and obligations secured by a letter of credit of the Federal Home Loan Banks;

(iii) Debt obligations and mortgage-backed securities of the Federal National Mortgage Association; and

(iv) Debt obligations of the Resolution Trust Corporation and Resolution Funding Corporation, including stripped obligations.

(c) Long-term debt obligations of, or fully guaranteed by, any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision or of any corporation, provided that such obligations are rated, at the time of purchase, by Moody's or S&P or Fitch in any of the three highest rating categories (without regard to gradations within such category) assigned by Moody's or S&P or Fitch;

(d) Rights to receive the principal of or the interest on obligations of states, political subdivisions, agencies or instrumentalities meeting the requirements set forth in subsection (c) above, whether through (i) direct ownership as evidenced by physical possession of such obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on such obligations;

(e) Negotiable and non-negotiable certificates of deposit, time deposits, demand deposits, banker's acceptances or other similar banking arrangements which are issued by banks, national banking associations, trust companies or savings and loan associations, including the Trustee and any of its affiliates, provided that, unless issued by a Qualified Financial Institution, any such certificate, deposit or other arrangement shall be continuously secured as to principal in the manner and to the extent provided in the last paragraph of this definition;

(f) Repurchase agreements for Qualified Investments described in subparagraph (a) or (b) above with a Qualified Financial Institution or with dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank or are members of the Securities Investors Protection Corporation, including in either case the Trustee and any of its affiliates, provided that the repurchase price payable under any such agreement shall be continuously secured in the manner and to the extent provided in the last paragraph of this definition;

(g) Investment agreements with any financial institution, the long-term debt, the claims paying ability or the financial program strength of which is rated not lower than the

second highest category (without regard to gradations within such category) by Moody's or S&P or Fitch. If the investment agreement is guaranteed by a third party, then the above rating requirements will apply to the guarantor only. In all cases, the above rating requirements will apply only at the time the investment agreement is executed;

(h) Commercial paper rated in one of the three highest rating categories by Moody's or S&P or Fitch;

(i) Shares or certificates in any short-term investment fund, which short-term investment fund invests not less than 98% of its assets in obligations described in subparagraphs (a) through (h) above, including without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates;

(j) Debt obligations of any foreign government or political subdivision thereof or any agency or instrumentality of such foreign government or political subdivision, provided that such obligations are rated by the Rating Service (without reference to subcategories) in one of the three highest rating categories assigned by the Rating Service;

(k) Certificates of participation representing an interest in any of the above-listed securities;

(l) Obligations issued by the Resolution Funding Corporation pursuant to FIRREA, the principal of which obligations is payable when due from payments of maturing principal and non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to FIRREA and the interest on which, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasurer pursuant to FIRREA;

(m) Shares of tax exempt money market funds which (i) are registered under the Investment Company Act of 1940, as amended, and (ii) are "qualified regulated investment companies" within the meaning of IRS Notice 87-22, dated May 25, 1987, and which meet the other requirements of IRS Notice 87-22 and any subsequent regulations necessary to exempt investments in such funds from the definition of "investment property" under Section 148 of the Code whose assets are solely invested in obligations of the highest rating categories by each Rating Service then having a rating on the Bonds, and (iii) which have an investment grade rating including without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates; or

(n) Forward agreements with respect to obligations listed in paragraphs (a), (b), (c), (d) or (h) in which a financial institution has a continual obligation to deliver or purchase the obligations at an agreed upon price or yield. The financial institution must have long-term debt, claims paying ability or financial program strength ratings in one of the three highest rating categories (without regard to gradations within such category) by Moody's or S&P or Fitch. If the financial institution's obligation is guaranteed by a third party, then the above rating requirements will apply to the guarantor only.

Any security required to be maintained for Qualified Investments in the form of certificates of deposit, time deposits, other similar banking arrangements and repurchase agreements described in subparagraphs (e) and (f) above shall be subject to the following:

(i) the collateral shall be in the form of obligations described in subparagraphs (a) or (b) above, except that the security for certificates of deposit, time deposits or other similar banking arrangements may include other marketable securities which are eligible as security for trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or under applicable state laws and regulations; and

(ii) the collateral shall have an aggregate market value, calculated not less frequently than monthly, at least equal to the principal amount (less any portion insured by the Federal Deposit Insurance Corporation or any comparable insurance corporation chartered by the United States of America) or the repurchase price secured thereby, as the case may be. The instruments governing the issuance of and security for the Qualified Investments shall designate the person responsible for making the foregoing calculations.

Notwithstanding the foregoing and to the extent permitted by applicable law, for so long as the Credit Facility is in place and the Credit Provider is not in default of its obligation thereunder to honor draws made in strict compliance with the terms thereof, "Qualified Investments" shall include any other investments approved in writing by the Credit Provider.

"Qualified Provider" shall mean any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated at the time of the execution and delivery of the Financial Products Agreement in one of the three highest rating categories of any Rating Service then rating the Bonds.

"Rate Determination Date" means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Commercial Paper Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day the Bonds become subject to the Daily Mode; (iii) in the case of the Weekly Mode, shall be each Wednesday or, if Wednesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Wednesday; (iv) in the case of the Term Mode, shall be a Business Day no earlier than thirty (30) Business Days and

no later than the Business Day next preceding the first day of an Interest Period, as determined by a Remarketing Agent; (v) in the case of the Fixed Rate Mode, shall be a date determined by a Remarketing Agent which shall be at least one Business Day prior to the Conversion Date; and (vi) in the case of the Dutch-Auction Mode, the date on which the Dutch-Auction Mode is to be determined pursuant to Exhibit B to the Indenture.

“Rate Mode” or “Mode” means the Daily Mode, the Weekly Mode, the Commercial Paper Mode, a Term Mode, the Fixed Rate Mode or the Dutch-Auction Mode.

“Rating Confirmation Notice” means a notice from the Rating Services rating the Bonds at such time, confirming that the rating on the Bonds assigned by such Rating Service will not be withdrawn (other than a withdrawal of a short-term rating upon a change to a Term Mode or a Fixed Rate Mode) or reduced as a result of the action proposed to be taken.

“Rating Service” means Moody’s if the Bonds are rated by such at the time at the request of the Corporation, and S & P if the Bonds are rated by such at the time at the request of the Corporation, and Fitch if the Bonds are rated by such at the time at the request of the Corporation, and their successors and assigns, or if any of the above shall be dissolved or no longer assigning credit ratings to long term debt, then any other nationally recognized entity assigning credit ratings to long term debt designated in writing by the Corporation.

“Rebate Fund” means the fund so designated which is established pursuant to the Indenture.

“Record Date” means, as the case may be, the applicable Regular Record Date or Special Record Date.

“Regular Record Date” means (i) with respect to Bonds in a Commercial Paper Mode or a Weekly Mode, the day (whether or not a Business Day) next preceding each Interest Payment Date; (ii) with respect to Bonds in the Daily Mode, the last day of the month next preceding each such Interest Payment Date (whether or not a Business Day); (iii) with respect to Bonds in a Term Mode or a Fixed Rate Mode, the first (1st) day (whether or not a Business Day) of the month in which such Interest Payment Date occurs; and (iv) with respect to Bonds in a Dutch-Auction Mode, as provided in Exhibit B to the Indenture.

“Reimbursement Agreement” means a reimbursement agreement between the Liquidity Facility Provider and the Corporation. Initially, the term “Reimbursement Agreement” shall refer to the Reimbursement, Credit and Security Agreement, dated as of April 1, 2005, between the Bank and the Corporation, as the same may be amended from time to time.

“Remarketing Agent” means any financial institution appointed as Remarketing Agent pursuant to the Indenture.

“Remarketing Agreement” means any remarketing agreement executed by the Corporation and any subsequent Remarketing Agent appointed pursuant to the Indenture.

“Remarketing Proceeds Purchase Account” means the special trust account so designated established by the Paying Agent pursuant to the Indenture.

“Representation Letter” means the representation letter from the Authority and the Paying Agent to DTC dated the Issue Date, or any blanket issuer letter of representation executed by the Authority in favor of DTC.

“Revenues” means (i) all amounts paid or payable by the Corporation under the Loan Agreement and assigned to the Trustee under the Indenture; (ii) any proceeds of Bonds originally deposited with the Trustee for the payment of interest accrued on the Bonds or otherwise paid to the Trustee by or on behalf of the Corporation or the Authority for deposit in the Bond Fund; (iii) investment income with respect to any moneys held by the Trustee under the Indenture, except for investment income on moneys held in the Rebate Fund; and (iv) any moneys paid to the Paying Agent under the Liquidity Facility or the Credit Facility.

“S & P” means Standard & Poor’s, A Division of The McGraw-Hill Companies, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S & P” shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Corporation.

“Short-Term Indebtedness” means all Indebtedness having a final maturity of one year or less from the date of creation thereof (including any Indebtedness which is renewable or extendable at the option of the obligor pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no Indebtedness is permitted to be outstanding under such agreement for a period of at least thirty (30) days during each period of twelve (12) consecutive months being with the effective date of such revolving credit or similar agreement).

“Short-Term Mode” means any of the Daily Mode, the Weekly Mode or the Commercial Paper Mode.

“Special Record Date” means such date as may be fixed for the payment of defaulted interest in accordance with the Indenture.

“State” means the State of California.

“Stated Interest Payment Dates” means each May 15 and November 15, or such other dates for Bonds that are in a Term Mode or a Fixed Rate Mode which are each the fifteenth calendar day of a month, are approximately six months apart and are specified by the Corporation in its notice of conversion to a Term Mode or a Fixed Rate Mode pursuant to the Indenture.

“Supplemental Indenture” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Indenture.

“Tax Certificate and Agreement” means the Tax Certificate and Agreement dated as of the Issue Date executed by the Corporation and the Authority.

“Term Mode” means the Mode during which all or any part of the Bonds bear interest at the Term Rate.

“Term Rate” means the per annum interest rate for any Bond determined pursuant to the Indenture.

“Term Rate Interest Payment Dates” means, with respect to a Bond in the Term Mode and for the current Interest Period for such Bond, each Stated Interest Payment Date occurring in such Period (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of such Period).

“Termination Event” means any termination event, Event of Default or similar event giving the Liquidity Provider the right to terminate its obligations to purchase Bonds or provide funds for the purchase of Bonds pursuant to the Liquidity Facility.

“Trustee” or “Bond Trustee” means U.S. Bank National Association, a national banking association and its successor for the time being in the trust under the Indenture, acting not in its individual capacity but solely in its capacity as Trustee under the Indenture for the benefit of the Bondholders, and its successor or successors and any corporation or association resulting from or surviving any consolidation or merger to which it or its successor(s) may be a part and any other corporation or association which may at any time be substituted in its place as successor trustee pursuant to the Indenture or otherwise (in each case including collectively each separate trustee and each co-trustee (if any), acting jointly or separately, appointed and acting pursuant to the Indenture). The “Office of the Trustee” means the designated corporate trust office of the Trustee, at which at any particular time its corporate trust business shall be administered (which office at the time of the execution of the Indenture is located in Los Angeles, California) and shall include such office of any successor Trustee.

“Unassigned Rights” means the Authority’s right to expenses and indemnification under the Loan Agreement and the Authority’s right to execute and deliver supplements and amendments to the Loan Agreement.

“Undelivered Bonds” means any Bonds (or portions of Bonds) subject to purchase pursuant to the Indenture, which the Owner of such Bonds (or such portion of Bonds) has failed to deliver as described in the Indenture.

“Underwriter” means Cain Brothers.

“Weekly Mode” means, with respect to the Bonds, the Mode during which any of the Bonds bear interest at a Weekly Rate.

“Weekly Rate” means the per annum interest rate on any Bond in the Weekly Mode determined pursuant to the Indenture.

THE INDENTURE

Certain of the provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

General

The Indenture is a contract between the Authority and the Trustee for the benefit of the owners of the Bonds issued pursuant to the Indenture. All covenants and agreements in the Indenture on behalf of the Authority or the Trustee will bind their respective successors and assigns. The Indenture will be governed by and construed in accordance with California law.

Source of Funds for Purchase of Bonds

The Indenture provides that by the close of business on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Paying Agent must purchase tendered Bonds from the tendering Owners at the Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price will be derived solely from the following sources in the order of priority indicated and neither the Paying Agent nor a Remarketing Agent are obligated to provide funds from any other source: first, from immediately available funds on deposit in a Remarketing Proceeds Purchase Account representing proceeds of the remarketing of such Bonds to any person other than the Authority, the Corporation or an Affiliate; second, from immediately available funds on deposit in the Liquidity Facility Purchase Account; third, from moneys held in the Corporation Purchase Account.

No Purchases or Sales After Acceleration

The Indenture prohibits any purchases of Bonds under the Tender and Purchase provisions of the Indenture if an Event of Default has occurred causing the principal of all Bonds Outstanding to be declared immediately due and payable, and such declaration has not been annulled, stayed or otherwise suspended.

Establishment of Funds

The Indenture creates the Clearing Fund, the Project Fund, the Bond Fund and the Rebate Fund, all of which are to be held by the Trustee.

Clearing Fund

A Clearing Fund is established with the Trustee pursuant to the Indenture. The Trustee is authorized (a) to pay from the Clearing Fund the amounts representing Costs of Issuance of the Bonds and (b) to transfer to the Bank amounts required to be paid to the Bank under the Reimbursement Agreement. Any remaining moneys in the Clearing Fund as of October 14, 2005 will be transferred to the Project Fund as provided in the Indenture.

Project Fund

A Project Fund is established with the Trustee pursuant to the Indenture. Moneys in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the Project and to pay interest on the Bonds and letter of credit fees to June 30, 2006 upon request of the Corporation. The Trustee is authorized to fund Costs of the Project to be incurred by the Corporation pursuant to a disbursement request in the Indenture executed by the Corporation and delivered to the Trustee and the Credit Provider. Any remaining moneys in the Project Fund as of April 14, 2008 shall be transferred to the General Debt Service Account of the Bond Fund as provided in the Indenture.

Pledge and Assignment; Revenues to Be Paid Over to Trustee

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund and funds held to pay the Purchase Price of any Bonds) are pledged to secure the full payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and to secure full payment of amounts owed under the Credit Facility. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds under the Indenture, without any physical delivery thereof or further act.

The Authority transfers in trust, and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and the Credit Provider, to the extent of its interest therein, all of the Revenues and other assets pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for its Unassigned Rights). Such assignment to the Trustee is solely in its capacity as Trustee under the Indenture, subject to the protections, immunities and limitations from liability afforded the Trustee under the Indenture. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement.

The Authority has caused the Revenues to be paid directly to the Trustee. If, notwithstanding these arrangements, the Authority receives any payments pursuant to the Loan Agreement (other than payments to the Authority in accordance with the Loan Agreement), the Authority shall immediately pay over the same to the Trustee to be held as Revenues or otherwise applied pursuant to the Indenture. Any moneys received by the Trustee with the written stipulation that they constitute payments by the Corporation under the Loan Agreement corresponding to payments of Purchase Price of Bonds shall be identified as such and promptly paid to the Paying Agent for application pursuant to the Indenture. Except as provided in the immediately preceding sentence and as otherwise specifically directed under the terms of the

Indenture, all Revenues and Loan Payments received by the Trustee shall be deposited into the General Account of the Bond Fund.

Bond Fund

The Bond Fund consists of a General Account, a General Debt Service Account, and if the Credit Facility that is a letter of credit is in effect, a Letter of Credit Debt Service Account. The proceeds of any draws on such letter of credit will be deposited into the Letter of Credit Debt Service Account. All moneys held by the Trustee in the General Account will be made available to the Paying Agent for deposit into the General Debt Service Account and applied in accordance with the Indenture.

Moneys in the Bond Fund will be applied to the payment of principal of, premium, if any, on (but only to the extent any Credit Facility permits application to such premium) and interest on the Bonds (other than Bank Bonds or Corporation Bonds). When moneys are drawn under the Credit Facility, the Credit Provider will also be reimbursed from the Bond Fund. Drawings on the Credit Facility will be made in the manner provided for under the Indenture.

Rebate Fund

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be specified in writing by the Corporation in order to comply with the Tax Certificate and Agreement. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Certificate and Agreement), for payment to the federal government of the United States of America. The Authority, the Corporation and the Holder of any Bonds shall have no rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate and Agreement (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Corporation including the Corporation's supplying all necessary information in the manner provided in the Tax Certificate and Agreement.

Investment or Deposit of Funds

Except as otherwise provided in the Indenture, all moneys received by the Trustee or the Paying Agent under the Indenture are to be considered trust funds and will not be subject to lien or attachment. The moneys will be deposited with the Trustee or the Paying Agent until or unless invested or deposited into a fund, except as otherwise provided in the Indenture. All deposits with the Trustee or the Paying Agent must be secured as required by applicable law. Moneys in all funds held by the Trustee, other than the Rebate Fund, will be held in trust solely for the Owners of the Bonds who will have a first lien thereon.

Pending their use under the Indenture, moneys in all funds held by the Trustee must be invested by the Trustee at the written direction of the Corporation, in Qualified Investments maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed (with the exception of (a) moneys held in certain accounts that may not be

invested under the Indenture). The Trustee may hold undivided interests in Qualified Investments for more than one fund (for which they are eligible) and may make interfund transfers in kind.

Except for the Debt Service Reserve Fund, any interest or profits realized on investments in any fund or account will be credited to the respective fund or account, and any loss will be charged against the same.

Investments in all funds other than the Rebate Funds will be valued by the Trustee at the end of each fiscal quarter, and at such other times as the Corporation or the Authority requests. The Corporation agrees to indemnify the Trustee against all liabilities, claims and charges in connection with the Trustee's valuation of the investments.

Covenants of the Authority

The Authority makes the following covenants under the Indenture:

(a) That the Authority will promptly pay out of Revenues and other assets pledged under the Indenture the principal and Purchase Price of, and the interest on, every Bond issued under the Indenture, according to its terms.

(b) That the Authority will maintain its existence as a public authority, use its best efforts to maintain and renew all its rights, powers, privileges and franchises, and comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body relating to the Authority's participation in the Project or the issuance of the Bonds.

(c) That the Authority will require the Corporation to perform its obligations under the Loan Agreement and that it will give prompt notice to the Trustee of any default known to the Authority under the Loan Agreement.

(d) That the Authority and the Trustee will not do anything that would: (i) release the Corporation from its liabilities or obligations under the Loan Agreement, (ii) release the Liquidity Provider or Credit Provider from its liabilities or obligations under the Liquidity Facility or Credit Facility (as applicable), or (iii) result in the surrender, termination, amendment or modification of, or impair the validity of, the Loan Agreement, the Liquidity Facility or the Credit Facility, except as specifically provided in such agreements.

(e) That except to the extent otherwise provided in the Indenture, the Authority will not enter into any contract or take any action that would impair the rights of the Trustee or the Bondholders, and that it will execute and deliver such further instruments and take such further action as may be required to carry out the purposes of the Indenture.

(f) That the Authority shall at all times do and perform all acts and things permitted by law and the Indenture that are necessary or desirable in order to assure that interest paid on the Bonds will be excluded from gross income for purposes of federal income taxes and shall take no action that would result in such interest not being excluded from gross income for federal

income taxes. Without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Certificate and Agreement.

Events of Default

Under the Indenture, an “Event of Default” is defined to include, in general terms: (a) failure to pay the principal or redemption price of any Bond when due; (b) failure to pay interest on any Bond when due; (c) failure to pay when due the Purchase Price of any Bond tendered for purchase, as provided in the Indenture; (d) the Authority’s continuing failure or refusal to comply with any covenants or provisions of the Act relating to the Bonds or the Project after notice of default has been given; (e) occurrence of an Event of Default under the Loan Agreement; or (f) receives a notice from the Credit Provider stating that an Event of Default as defined in the Reimbursement Agreement has occurred and is continuing, directing the Trustee to declare the Bonds immediately due and payable, and stating that the Credit Facility will terminate 10 days after the Trustee’s receipt of such notice.

Remedies Upon Default

When an Event of Default occurs under the Indenture, the Trustee may, or shall upon request of a majority of the Bondholders, declare the principal and interest on all Outstanding Bonds to be immediately due and payable. However, if the Initial Credit Facility is in effect and the Credit Provider is not in default, the Trustee may not accelerate the amounts due on the Bonds without the written consent of the Credit Provider.

If, after acceleration of the amounts due on the Bonds, all arrears of principal and interest payments due are paid by the Authority and the default is no longer continuing, then the Owners of a majority in principal amount of the Bonds then Outstanding may annul such acceleration. Annulment will be binding upon the Trustee, the Paying Agent, and all Owners of the Bonds; provided, however, that no such annulment shall occur if the Trustee has drawn upon the Credit Facility, unless such Credit Facility has been fully reinstated. No annulment may extend to or affect any subsequent default or impair any right or remedy consequent thereon.

In addition to or in lieu of acceleration, the Trustee may enforce its rights under the Loan Agreement and may apply any Revenues or moneys in the Bond Fund to the payment of the principal of or interest on the Bonds. Moreover, the Trustee may, in its discretion and with the consent of the Credit Provider, or shall, upon the request of Owners of a majority in principal amount of all Bonds then Outstanding, commence any of the following legal proceedings: (a) sue to enforce all rights of the Bondholders, including the right to require the Authority to enforce its rights and carry out its duties under the Loan Agreement, the Indenture and the Act; (b) bring suit upon the Bonds; (c) sue the Authority for an accounting of moneys which it has received directly as if it were the trustee of an express trust for the Bondholders; or (d) sue to enjoin all acts that are unlawful or in violation of the rights of the Bondholders. The Trustee is also entitled to the appointment of a receiver.

The remedies specified in the Indenture are cumulative and are not intended to be exclusive of any other remedy existing under the law.

Limitations on Actions by Bondholders

Under the Indenture, the Owners of a majority in principal amount of the Bonds Outstanding have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee, provided that such direction is not in conflict with the Indenture or any rule of law, or unduly prejudicial to the rights of minority Bondholders.

Bondholders may not pursue in their own name any remedy under the Indenture or the Loan Agreement unless: (a) the Trustee is given written notice of an Event of Default; (b) Owners of at least a majority in principal amount of all Bonds then Outstanding request the Trustee, in writing, to pursue the remedies granted in the Indenture in their name; (c) the Trustee is offered sufficient indemnity; and (d) the Trustee fails to comply with such request within a reasonable time.

Application of Moneys in Event of Default

Except as provided under the Indenture, any moneys received by the Trustee after an Event of Default occurs will be applied in the following order:

(a) To the Rebate Fund for payment to the United States Government of amounts required under the Indenture;

(b) To the payment of the reasonable fees and expenses of the Trustee and the Paying Agent;

(c) To the payment of principal or redemption price (as the case may be) and interest then owing on the Bonds, and if such moneys are insufficient to pay the same in full, then to the payment of principal or redemption price and interest ratably, without preference or priority of one over another or of any installment of interest over any other installment of interest; and

(d) To the payment of Costs and expenses of the Authority, including counsel fees, incurred in connection with the Event of Default.

Any remaining surplus of moneys will, to the extent of any unreimbursed drawing under the Credit Facility or Liquidity Facility, or other obligations owing by the Corporation to the Credit Provider or Liquidity Provider, be paid first to the Liquidity Provider and then to the Credit Provider in amounts certified to the Trustee by the Credit Provider or Liquidity Provider as being due. Any remaining moneys will be paid to the Corporation or the person lawfully entitled to receive the same as a court of competent jurisdiction may direct.

The Trustee

The Indenture also establishes procedures for the removal and resignation of the Trustee, the appointment of a co-trustee, and the qualifications and appointment of a successor trustee. The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Bondholder may be entitled to take with like effect as if the Trustee were not a party to the Indenture.

The Paying Agent

The Paying Agent was appointed by the Authority at the direction of the Corporation for the purpose of acting as paying agent, Bond registrar, transfer agent, authenticating agent and tender agent. Unless agreed or directed otherwise by the then-current Liquidity Provider, the Paying Agent and the Trustee shall be the same party. The Indenture also provides procedures for the removal and resignation of the Paying Agent, and the appointment of a successor Paying Agent.

The Remarketing Agent

The Corporation may appoint a qualified Remarketing Agent under the Indenture. The Remarketing Agent will use its best efforts to arrange for the sale of Bonds upon written notice and tender of such Bonds by the Owners thereof, provided that no Bonds may be remarketed to the Authority, the Corporation or an Affiliate, and no Bonds may be purchased if a continuing Event of Default has caused acceleration to occur. The Indenture provides for the resignation and removal of the Remarketing Agent and the appointment of a successor Remarketing Agent.

Acts of Bondholders

Any action by the Owner of any Bond will bind all future owners of the same Bond with respect to anything done or suffered by the Authority, the Trustee or the Paying Agent in pursuance thereof.

Amendments and Supplements

The Indenture may be amended or supplemented at any time without the consent of the Bondholders for one or more of the following purposes, in general terms: (a) to cure any ambiguity or formal defect or omission in the Indenture; (b) to grant the Trustee any additional rights and remedies that may lawfully be granted to the Bondholders and the Trustee, or either of them; (c) to assign and pledge under or subject to the Indenture, additional revenues, properties or collateral; (d) to appoint a new Trustee; (e) to qualify the Indenture under the Trust Indenture Act of 1939, as amended, or to permit the qualification of the Bonds for sale under federal and state securities laws; (f) to effect changes to obtain or maintain a rating on any Bonds; (g) to permit continued compliance with the Tax Certificate and Agreement; (h) to provide for uncertified Bonds and a book-entry only system of registration for any Bonds; (i) to provide for the refunding or advance refunding of any Bonds; (j) to implement a conversion of the Rate Mode for the Bonds, to provide for the issuance of Commercial Paper Bonds, or to evidence or give effect to the delivery of an initial or Alternate Liquidity Facility or Alternate Credit Facility; (k) to provide for the conversion of Bonds to an auction securities mode other than a Dutch-Auction Mode; (l) to make any change that does not materially adversely affect the rights of any Bondholders, the Trustee or the Paying Agent; and (m) to make a change that may or does materially adversely affect the rights of any Bondholders provided that the effective date of any such amendment shall be at least 30 days after notice of the proposed amendment has been sent to the Holders of the Bonds, and shall be either (I) a date on which such Bonds are subject to mandatory tender for purchase or (II) any Business Day following such 30 day notice provided

that all of the Bonds are then subject to optional tender by the Holders thereof upon not more than seven days' notice..

Other amendments and supplements to the Indenture require the consent of the Corporation and Owners of a majority in aggregate principal amount of the Bonds Outstanding, except that the following require the unanimous consent of all affected Bondholders: (a) amendments to the principal, Purchase Price or redemption price or interest payable upon any Bonds; (b) alterations to the Interest Payment Dates, the dates of maturity or the redemption or purchase provisions of any Bonds; and (c) amendments to the Indenture's provisions regarding amendments and supplements.

The Loan Agreement may be amended by the Authority, the Corporation and the Trustee, without the consent of or notice to the Owners of the Bonds when: (a) required by the Indenture or the Loan Agreement; (b) curing any ambiguity or formal defect or omission; (c) making changes to permit continued compliance with the Tax Certificate and Agreement; (d) making changes to obtain or maintain a rating on any Bonds; (e) necessary to implement a conversion of the Rate Mode, to provide for the issuance of Commercial Paper Bonds, or to evidence or give effect to the delivery of an Alternate Credit Facility or Alternate Liquidity Facility; (f) making amendments that do not materially adversely affect the rights of any Bondholders, the Trustee or the Paying Agent; and (g) to make any change that may or does materially adversely affect the rights of any Bondholders provided that the effective date of any such amendment shall be at least 30 days after notice of the proposed amendment has been sent to the Holders of the Bonds, and shall be either (I) a date on which such Bonds are subject to mandatory tender for purchase or (II) any Business Day following such 30 day notice provided that all of the Bonds are then subject to optional tender by the Holders thereof upon not more than seven days' notice..

Other amendments and supplements to the Loan Agreement require the consent of the Corporation and Owners of a majority in aggregate principal amount of the Bonds Outstanding, except that the following changes require the unanimous consent of all affected Bondholders: (a) decreases in the amounts payable under the Loan Agreement constituting Revenues; (b) changes to the date of payment or prepayment provisions of the Loan Agreement; and (c) changes with respect to the Loan Agreement's provisions on amendments.

So long as the Credit Facility or any Alternate Credit Facility is in full force and effect and the Credit Provider is not in default of its obligation under the Indenture to honor draws made in strict compliance with the terms of the Indenture, neither the Indenture nor the Loan Agreement shall be amended without the prior written consent of the Credit Provider.

Defeasance

When the whole amount of the principal or redemption price (as the case may be) of, and interest on, all Bonds issued under the Indenture have been paid, or provision has been made for such payment and for payment of any tender Purchase Price, together with the payment of all other sums payable under the Indenture, including all amounts owing the Liquidity Provider and the Credit Provider under the Liquidity Facility and the Credit Facility, then the Indenture will be released and the right, title and interest of the Trustee in and to the Revenues and the other assets pledged under the Indenture will cease. If either the Liquidity Provider or the Credit Provider

has not been paid in full and so requests in writing, the Trustee and the Paying Agent will assign and turn over to the Liquidity Provider or Credit Provider all of the Trustee's right, title and interest under the Indenture and the Loan Agreement, all balances not required for the payment of the Bonds and other sums, and any other property comprising the Revenues and the other assets pledged under the Indenture.

For so long as the Credit Facility or an Alternate Credit Facility is in effect and the Credit Provider is not in default under the Indenture, the Bonds may not be defeased unless the following conditions are met:

(a) only non-redeemable obligations of the United States or those for which the full faith and credit of the United States are pledged for the timely payment of principal and interest shall be deposited with the Trustee which obligations shall constitute Available Moneys;

(b) a verification report by a verifier acceptable to the Credit Provider shall be delivered to the Trustee and the Credit Provider in form and substance satisfactory to the Credit Provider;

(c) an opinion of Bond Counsel shall be rendered to the Trustee to the effect that all of the requirements of the Indenture for defeasance of the Bonds have been complied with; and

(d) no forward delivery agreements, hedge agreements, purchase and resale agreements or par-put agreements may be used with respect to the investment of any funds or securities used to defease the Bonds without the prior written consent of the Credit Provider.

THE LOAN AGREEMENT

Certain of the provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

General

The Loan Agreement provides for the Loan from the Authority to the Corporation of the proceeds from the sale of the Bonds for the purpose of financing the Project. The Authority will deposit the proceeds from the sale of the Bonds with the Trustee to be expended and deposited in accordance with the provisions of the Indenture. The Corporation will be obligated to repay the Loan by making Loan Payments to the Trustee for the account of the Authority and for deposit into the appropriate account in the Bond Fund created under the Indenture. The payments will be in an aggregate amount sufficient to pay the principal or purchase price of, premium, if any, and interest on the Bonds when due and payable (whether by maturity, optional or mandatory redemption or acceleration), and to pay all other amounts payable under the terms of the Loan Agreement. The Corporation may receive a credit against Loan Payments to the extent the amount in the Bond Fund exceeds the amount required to be paid out of the Bond Fund. The obligations of the Corporation to pay the installments and other amounts payable under the Loan Agreement are absolute and unconditional.

According to the Loan Agreement, all representations, warranties, covenants and agreements on the part of the Corporation and the Authority are for the benefit of the Trustee and the registered owners from time to time of the Bonds and their respective successors and assigns.

The Loan Agreement will remain in full force and effect from its date until all of the Bonds have been fully paid or provision for such payment has been made pursuant to the Indenture, and all reasonable and necessary fees and expenses of the Trustee, and all other liabilities of the Corporation, accrued and to accrue through the final payment of the Bonds, have been paid or provision for such payment has been made pursuant to the Indenture.

The Loan Agreement is governed by and will be construed in accordance with California law.

Costs of Project

Under the Loan Agreement, the Corporation agrees and acknowledges that there is no implied or express warranty that the proceeds of the Bonds will be sufficient to pay the Costs of the Project. In the event the Loan is insufficient to pay the Costs of the Project, the Corporation is obligated to pay the excess Costs.

Loan Payments

The Corporation agrees to make the following “Loan Payments” to the Trustee for deposit in the appropriate account in the Bond Fund on the following dates:

(a) Interest. On or before each Interest Payment Date for Bonds, an amount equal to the interest due on such Bonds on such Interest Payment Date.

(b) Principal. On or before the Maturity Date, an amount equal to the Outstanding principal amount of the Bonds.

(c) Payments Required to Effect Optional Redemption. On or before the Business Day next preceding the date of redemption of any Bonds to be redeemed pursuant to the optional redemption provisions of the Indenture or the extraordinary redemption provisions of the Indenture, an amount not less than the full amount required to pay the principal of and premium, if any, on such Bonds to be so redeemed. For so long as required under the Reimbursement Agreement, on the first Business Day of each month beginning April 1, 2007, an amount equal to one-twelfth of the amount of principal of the Bonds that will be required to be redeemed pursuant to the Reimbursement Agreement on the following June 15 or such lesser amount that, together with amounts already on deposit in the General Debt Service Account of the Bond Fund, will be sufficient to pay the principal of the Bonds to be redeemed on such June 15 pursuant to the Reimbursement Agreement or to reimburse the Credit Provider for draws on the Credit Facility applied to such purpose.

(d) Purchase Price Payments. On or before the date such funds are required to be delivered to the Paying Agent under the Indenture, any amount necessary to enable the Paying Agent to effect the purchase of Bonds tendered for optional or mandatory purchase pursuant to the Indenture to the extent that moneys are not otherwise available therefor from the proceeds of

the remarketing of such Bonds by the Remarketing Agent and/or from drawings on the Liquidity Facility (if one is in effect).

(e) Rebate to the United States. If there is any amount required by the Tax Certificate and Agreement to be paid to the United States pursuant to Section 148(f) of the Code, the Corporation shall pay such amount to the Trustee for deposit to the Rebate Fund created under the Indenture, who will submit the payment to the United States.

Additional Payments

In addition to the Loan Payments, the Corporation shall also pay to the Authority, the Trustee or the Paying Agent, as the case may be, “Additional Payments,” as follows:

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Trustee, at the Corporation’s expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(b) All reasonable fees, charges and expenses of the Trustee and the Paying Agent for services rendered under the Indenture and all amounts referred to in the Indenture, as and when the same become due and payable;

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

(d) The fees and expenses of Authority or any agent selected by the Authority to act on its behalf in connection with the Loan Agreement, the Tax Certificate and Agreement, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Tax Certificate and Agreement, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Tax Certificate and Agreement, the Bonds or the Indenture.

Such Additional Payments shall be billed to the Corporation by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been

incurred or paid by the Authority or the Trustee for one or more of the above items. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of the bill by the Corporation. Notwithstanding the foregoing, the Authority shall not be required to submit a bill to the Corporation for payment of the Authority's annual bond administration fee (which shall be due and payable annually in advance), on each March 1, commencing March 1, 2006, and which shall equal 0.02% of the aggregate principal amount of Bonds Outstanding under the Indenture as of each annual due date.

Optional Prepayments by Corporation

The Corporation may, upon prior written notice to the Authority and the Paying Agent, prepay all or any portion of the Loan to the same extent and upon the same conditions that the Authority has the right to redeem or defease all or a portion of the Bonds in accordance with the Indenture. Any such amounts prepaid by the Corporation to the Trustee shall be credited against the outstanding balance of the Loan under the Loan Agreement. Partial prepayments of the Loan made by the Corporation under the Loan Agreement shall be credited by the Trustee against the obligation of the Corporation to pay amounts equal to the principal due on the Bonds in such order as the Corporation shall elect prior to such purchase or if no such election is made prior to such purchase, in the inverse order thereof. Payments of principal installments and interest falling due shall continue to be made in accordance with the Loan Agreement until the entire outstanding balance of the Loan and all accrued interest have been paid or provision satisfactory to the Trustee has been made for the defeasance of the Bonds in accordance with the Indenture.

If there are sufficient moneys available with the Trustee to meet the payment of principal of, premium, if any, and interest on all the Outstanding Bonds and sufficient funds available with the Trustee to meet all remaining obligations of the Corporation to the Authority and the Trustee, the Trustee shall so notify the Corporation in writing, and the Corporation shall then be relieved of making any further payments under the Loan Agreement shall terminate.

Liquidity Facility

The Corporation at its option may from time to time with notice to the Authority and the Trustee cause the Liquidity Facility to be obtained or extended or an Alternate Liquidity Facility to be delivered in replacement therefor, or to terminate the Liquidity Facility, in each case to the extent permitted by the terms of the Indenture. It is anticipated that so long as the Liquidity Facility is held by the Paying Agent, all payments of Purchase Price of the Bonds payable in connection with an optional or mandatory tender and purchase of Bonds will be funded, to the extent remarketing proceeds are not available to fund such payments, from draws on such Liquidity Facility and that moneys paid by the Corporation pursuant to the Loan Agreement representing Loan Payments under the Loan Agreement will be applied to reimburse the Liquidity Provider for such draws.

Credit Facility

The Corporation at its option may from time to time with notice to the Authority and the Trustee cause the Credit Facility to be obtained or extended or an Alternate Credit Facility to be

delivered in replacement therefor, or to terminate the Credit Facility, in each case to the extent permitted by the terms of the Indenture.

Pledge of Gross Revenues; Gross Revenue Account

The Corporation agrees that, until all obligations of the Corporation under the Loan Agreement and the Reimbursement Agreement have been paid in full, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the “Gross Revenue Account” which the Corporation shall establish and maintain, subject to the provisions of the Loan Agreement, in a deposit account or accounts at such banking institution as the Corporation shall from time to time designate, in writing to the Trustee for such purpose (herein called the “Depository Bank”). The Corporation shall enter into a deposit account control agreement with the Depository Bank and U.S. Bank National Association (in its capacity as the 1999 Trustee and the Trustee) with respect to the Gross Revenue Account (the “Deposit Account Control Agreement”). As security for the payment and performance by the Corporation of all obligations of the Corporation under any agreement securing Parity Debt and any Parity Financial Products Agreement, the Corporation pledges and assigns to the Trustee (as assignee of the Authority), on behalf of the holders of any Parity Debt and any Parity Financial Products Agreements, and grants to the Trustee (as assignee of the Authority), on behalf of the holders of any Parity Debt and any Parity Financial Products Agreements, a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to, the Gross Revenues and the Gross Revenue Account. The Corporation shall execute the Deposit Account Control Agreement, hereby irrevocably authorizes the Trustee to cause to be filed Uniform Commercial Code financing statements (including, but not limited to, continuation statements and amendments to such Uniform Commercial Code financing statements), and shall execute and deliver such other documents as may be necessary or reasonably requested by the Trustee in order to perfect or maintain the perfection of such security interest. The Corporation irrevocably authorizes the Trustee to file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in any collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the Loan Agreement. The Corporation also authorizes the 1999 Trustee and the Trustee to enter into an intercreditor agreement with the Credit Provider with respect to the liens and security granted under the 1999 Sale Agreement, the Loan Agreement and the Deed of Trust. The Corporation represents and warrants that as of the date of the Loan Agreement it is a nonprofit public benefit corporation organized solely under the laws of the State of California, that its complete legal name is as set forth on the signature page of the Loan Agreement and that the State organization number of the Corporation is C257380. The Corporation covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days’ notice of such change to the Trustee and the Credit Provider and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Trustee in such collateral.

Gross Revenues and amounts in the Gross Revenue Account may be used and withdrawn by the Corporation at any time for any lawful purpose (including without limitation transfer to investment or other accounts not constituting part of the Gross Revenue Account), except as provided in the Loan Agreement. Upon such use and/or withdrawal, amounts in the Gross

Revenue Account shall no longer be subject to the security interest granted pursuant to the Loan Agreement.

In the event that the Corporation is delinquent for more than one Business Day in any payment with respect to Parity Debt or a Parity Financial Products Agreement, the Trustee may notify the Corporation and the Depository Bank of such delinquency, and, unless such payment with respect to Parity Debt or a Parity Financial Products Agreement is paid within ten days after receipt of such notice, exclusive control over the Gross Revenue Account may be exercised by the Trustee as provided in the Deposit Account Control Agreement. All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Account as provided in the Loan Agreement and the Trustee may continue to exercise exclusive control over the Gross Revenue Account until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all payments required with respect to Parity Debt and Parity Financial Products Agreements in default and until all other then-existing events of default with respect to Parity Debt and Parity Financial Products Agreements known to the Trustee 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. During any period that the Gross Revenue Account is subject to the exclusive control of the Trustee, the Trustee shall use and withdraw amounts in said fund from time to time to make payments required of the Corporation with respect to any Parity Debt or Parity Financial Products Agreement as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on such Parity Debt and payments under Parity Financial Products Agreements, ratably, according to the amounts due respectively for such debt service and such payments, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of such Parity Debt and Parity Financial Products Agreements, without discrimination or preference. During any period that the Gross Revenue Account is subject to the exclusive control of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues of the Corporation, unless and to the extent that the Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Account which do not constitute Gross Revenues and the Corporation may submit requests to the Trustee as to which expenses to pay and in which order. The Corporation agrees to execute and deliver all such further instruments, if any, as may be required to implement this Section. The Corporation further agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the holders from time to time of Parity Debt and Parity Financial Products Agreements, and shall entitle the Trustee, as assignee of the Authority, with or without notice to the Corporation, to take immediate action to compel the specific performance of the obligations of the Corporation as provided in the Loan Agreement.

The parties acknowledge in the Loan Agreement that the Gross Revenues have been previously pledged under the 1999 Sale Agreement and the intent of the parties is that the pledge of Gross Revenues under the Loan Agreement act as an independent pledge of collateral that secures the Corporation's obligations with respect to all Parity Debt (including the 1999 Sale Agreement) and Parity Financial Products on a parity basis; provided, however, that while the 1999 Certificates are outstanding, the Gross Revenue Account established under the Loan

Agreement shall be the same Gross Revenue Account established pursuant to the 1999 Sale Agreement.

Continuing Disclosure Agreement

Upon the conversion of the Bonds to a Fixed Rate Mode, a Term Mode or a Dutch-Auction Mode, the Corporation shall enter into and comply with the provisions of a Continuing Disclosure Agreement if then required to do so under SEC Rule 15c2-12 (or any successor provision) and supply the Authority, the Underwriter and the Trustee annually with evidence of its compliance therewith.

Tax Covenants

The Corporation covenants and agrees that it shall at all times do and perform all acts and things permitted by law and the Loan Agreement and the Indenture which are necessary in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall 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 Corporation agrees to comply with the provisions of the Tax Certificate and Agreement which are incorporated in the Loan Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

Parity Debt

The Corporation may incur Parity Debt provided that:

(a) The Trustee shall act as trustee for the Parity Debt (or in lieu thereof an intercreditor agreement or similar agreement acceptable to the Trustee shall be in place with respect to such Parity Debt and the obligations of the Corporation under the Loan Agreement);

(b) The agreement under which the Parity Debt is issued shall require that (a) an Event of Default under the Loan Agreement in respect of which the Trustee is proceeding to exercise remedies shall constitute an event of default under such agreement, and (b) remedies upon an event of default shall be substantially the same as remedies provided in the Loan Agreement;

(c) Any collateral given or to be given to secure the Parity Debt (other than a reserve or other funds and accounts established in the agreement pursuant to which such Parity Debt is issued or a letter of credit, insurance policy or similar credit or liquidity enhancement facility) shall also secure the obligations of the Corporation with respect to any Parity Debt and any Parity Financial Products Agreement on a pari passu basis; and

(d) The Corporation shall comply with the provisions of the 1999 Sale Agreement in connection with the incurrence of such Parity Debt. The provisions of the 1999 Sale Agreement and the definitions used therein are incorporated in the Loan Agreement by this reference.

Investments

The Authority and the Corporation agree that all moneys in any fund established under the Indenture may be invested in such Qualified Investments as the Corporation may direct in writing; provided, however, that any such directions shall conform to the requirements of the Indenture. The Trustee is authorized to trade with itself in the purchase and sale of securities as provided in the Indenture.

Events of Default

Under the Loan Agreement, the occurrence of any of the following shall constitute an Event of Default:

(a) Failure by the Corporation to make principal, premium, if any, and interest payments when due; or

(b) Failure by the Corporation to make any other payment pursuant to the Loan Agreement or in the performance of or compliance with any of the provisions, warranties, covenants, agreements, terms or conditions contained in the Loan Agreement, other than those specified above, where such default is not cured within 30 days following written notice to the Corporation (except in the case of a default which cannot be cured in 30 days, in which case the period is extended for a reasonable time, provided the Corporation begins compliance measures within 30 days and proceeds diligently to cure the same); provided that the Corporation's failure to comply with the Loan Agreement's provisions regarding disclosure of Financial Statements upon default, or provision regarding Continuing Disclosure Agreements, is not considered an Event of Default under the Loan Agreement or the Indenture; or

(c) An order or decree entered appointing a receiver or custodian for any of the Corporation's revenues, or approving a petition filed against the Corporation seeking reorganization of the Corporation under the federal bankruptcy laws or any other similar state or federal law, or if the Corporation is adjudged insolvent by a court of competent jurisdiction or a bankrupt as a result of a petition filed in bankruptcy against the Corporation, or if any such order or decree, having been entered without the consent or acquiescence of the Corporation, is not vacated or discharged or stayed on appeal within 120 days after the date of entry; or

(d) Any proceeding instituted, with the consent or acquiescence of the Corporation, or any plan entered into by the Corporation, for the purpose of effecting a composition between the Corporation and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any or all of the amounts payable by the Corporation under the Loan Agreement; or

(e) The Corporation (i) files a petition in bankruptcy or under Title 11 of the United States Bankruptcy Code, as amended, (ii) makes an assignment for the benefit of its creditors, or (iii) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the revenues of the Corporation from which the payments by the Corporation under the Loan Agreement may be made; or

(f) The Corporation files a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable federal or state law; or

(g) Under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the Corporation or of the whole or any substantial part of its property, and such custody or control is not be terminated within 30 days from the date of assumption of such custody or control; or

(h) Any representation or warranty made by the Corporation in the Loan Agreement or in any statement or certificate furnished to the Authority or the Trustee or the purchaser of any Bonds in connection with the sale of the Bonds, or furnished by the Corporation pursuant to the Loan Agreement or the Indenture, proves untrue in any material respect as of the date of the issuance or making of the representation or warranty and is not corrected or brought into compliance within 30 days after written notice to the Corporation by the Authority or the Trustee; or

(i) If for any reason the Bonds are accelerated and declared due and payable; or

(j) A Sale Agreement Default (as defined in the 1999 Sale Agreement) shall have occurred and be continuing under the 1999 Sale Agreement; or

(k) Any event of default under any agreement governing Parity Debt or Parity Financial Products Agreement shall have occurred and be continuing under such agreement.

Unless and until the Authority or the Trustee exercises any remedies upon an Event of Default, the Corporation (or any other Person on behalf of the Corporation) may at any time (i) pay all accrued unpaid payments then due and owing on the outstanding balance of the Loan and all other sums which the Corporation is obligated to pay under the Loan Agreement; and (ii) cure all other existing defaults under the Loan Agreement, and in every such case, payment and cure will constitute a waiver of the default and its consequences as though the default had not occurred.

Remedies upon Event of Default

Upon the occurrence of an Event of Default, the entire outstanding balance of the Loan and any other sums the Corporation is obligated to pay under the Loan Agreement shall be immediately due and payable, if the Trustee has declared the acceleration of the Bonds in accordance with the Indenture. The Trustee, after 10 days notice to the Corporation, may, but shall not be required to, perform for the account of the Corporation any covenant of the Corporation that is in default under the Loan Agreement, or to make any payment for which the Corporation is in default. The Corporation shall pay to the Trustee upon demand any amount paid by the Trustee in the performance of such covenant and any amounts which the Trustee or the Authority shall have paid by reason of failure of the Corporation to comply with any covenant or provision of the Loan Agreement, including reasonable counsel fees and expenses incurred in connection with prosecution or defense of any proceedings instituted by reason of default of the Corporation, together with interest at a rate equal to the lesser of the highest rate permitted by applicable law and the cost of the money to the Trustee and the Authority, from the date of payment until repayment by the Corporation. The Authority or the Trustee may pursue

any other right or remedy available under the Loan Agreement, the Indenture, the Deed of Trust, the 1999 Sale Agreement or any other agreement or instrument or at law or in equity. No right or remedy conferred upon or reserved to the Authority or the Trustee is exclusive of any other right or remedy provided in the Loan Agreement or allowed by law.

Notwithstanding any other provision of the Loan Agreement to the contrary, so long as any Credit Provider is not then in default of its obligation under the Credit Facility to honor draws presented in strict compliance with the terms thereof, the Trustee shall not without the prior written consent or direction of such Credit Provider exercise any remedies under the Loan Agreement in the case of any Loan Default Event; provided, however, that the Trustee may exercise any and all remedies under the Indenture and the Loan Agreement (except acceleration) to collect any fees, expenses and indemnification from the Corporation without obtaining the consent of the Credit Provider.

APPENDIX B
AUCTION PROVISIONS

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APPENDIX B

AUCTION PROVISIONS

Definitions

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this APPENDIX B and elsewhere in this Official Statement have the following meanings with respect to the Bonds in a Dutch-Auction Rate Period unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

“Applicable Percentage” means, as of any Auction Date, the Percentage of Reference Rate (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Percentage of Reference Rate</u>
AAA/Aaa	175%
AA/Aa	200
A/A	250
BBB/Baa	275
Below BBB/Baa	300

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with the provisions of the Indenture.

“Auction Agreement” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Indenture with respect to the Bonds while bearing interest at a Dutch-Auction Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Indenture, (i) if the Bonds are in a daily Auction Period, each Business Day, (ii) if the Bonds are in a Special Rate Period, the last Business Day of the Special Rate Period, and (iii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or a Special Rate Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next

preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Special Rate Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“Auction Period” means (i) a Special Rate Period, (ii) with respect to Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (iii) with respect to Bonds in a seven-day mode, a period of generally seven days beginning on a day of the week for the Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a day of the week immediately prior to the normal Interest Payment Date) and ending on the day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to Bonds in a 28-day mode, a period of generally 28 days beginning on an Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week immediately prior to the normal Interest Payment Date) and ending on the fourth day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to Bonds in a 35-day mode, a period of generally 35 days beginning on an Interest Payment Date (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a day of the week immediately prior to the normal Interest Payment Date) and ending on the fifth day of the week immediately prior to the normal Interest Payment Date thereafter (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (vi) with respect to Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding semiannual Interest Payment Date; provided, however, that if there is a conversion of Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion

from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week immediately prior to the normal Interest Payment Date (unless such day of the week immediately prior to the normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during a Dutch-Auction Rate Period set forth in the Indenture and summarized in this APPENDIX B.

“Auction Rate” means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Dutch-Auction Rate.

“Authorized Denominations” means \$25,000 and integral multiples thereof, notwithstanding anything else in the Indenture to the contrary, so long as the Bonds bear interest at a Dutch-Auction Rate.

“Available Bonds” means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this APPENDIX B.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Indenture, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation with the consent of the Authority.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Indenture, as such agreement may from time to time be amended or supplemented.

“Business Day” in addition to any other definition of “Business Day” included in the Indenture while the Bonds bear interest at a Dutch-Auction Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

“Conversion Date” means the date on which the Bonds begin to bear interest at a Fixed Rate, a Weekly Rate or a Flexible Rate.

“Default Rate” means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to three hundred percent (300%) of the Reference Rate determined on the Auction Date next preceding the first day of such Auction Period or in the

case of the Bonds in a daily Auction Period, three hundred percent (300%) of the Reference Rate determined on the Auction Date which was the first day of such Auction Period, provided, however, the Default Rate shall not exceed the Maximum Interest Rate.

“Dutch-Auction” means the Bonds while they bear interest at the Dutch-Auction Rate.

“Dutch-Auction Rate” means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with the Indenture as summarized under “Determination of Dutch-Auction Rate” of this APPENDIX B; provided, however, in no event may the Dutch-Auction Rate exceed the Maximum Dutch-Auction Rate.

“Dutch-Auction Rate Conversion Date” means with respect to the Bonds, the date on which the Bonds convert from an interest rate period other than a Dutch-Auction Rate Period and begin to bear interest at a Dutch-Auction Rate.

“Dutch-Auction Rate Period” means after the Initial Period any period of time commencing on the day following the Initial Period and ending on a Weekly Rate Conversion Date, a Flexible Rate Conversion Date or a Fixed Rate Conversion Date.

“Existing Owner” means a Person who is listed as the beneficial owner of the Bonds in the records of the Auction Agent.

“Hold Order” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this APPENDIX B.

“Initial Period” means the period from the date of conversion of Bonds to a Dutch-Auction Rate to but not including the next succeeding Interest Payment Date.

“Interest Payment Date” with respect to the Bonds bearing interest at Dutch-Auction Rates, means (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Rate Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Rate Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Rate Period, or (ii) 92 or more days, a day of the week during each thirteenth week after the first day of such Special Rate Period designated by the Corporation as the Interest Payment Date or the next Business Day if such day of the week designated by the Corporation as the Interest Payment Date not a Business Day and on the Business Day immediately following such Special Rate Period, (d) after the Fixed Rate Conversion Date, each semiannual Interest Payment Date, (e) each Mandatory Purchase Date, and (f) the Maturity Date.

“LIBOR” on any date of determination for any Auction Period, means: (i) for any Auction Period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the “calculation date”) and (ii) for any Auction Period of (A) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period, (B)

70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two and three-month periods, (C) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period, (D) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three and six-month periods, (E) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period, (F) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six and nine-month periods, (G) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period, (H) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods and (I) 325 or more but fewer than 365 days, such rate for deposits in U.S. dollars for a one-year period.

“Maximum Interest Rate” means the lesser of 15% per annum or the maximum rate permitted by applicable law.

“Maximum Dutch-Auction Rate” means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage, provided, however, the Maximum Dutch-Auction Rate shall not exceed the Maximum Interest Rate.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

“Prevailing Rating” means (a) AAA/Aaa, if the Bonds shall have a rating of AAA or better by S&P and a rating of Aaa or better by Moody’s, (b) if not AAA/Aaa, AA/Aa if the Bonds shall have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody’s, (c) if not AAA/Aaa or AA/Aa, A/A if the Bonds shall have a rating of A- or better by S&P and a rating of A3 or better by Moody’s, and (d) if not AAA/Aaa, AA/Aa or A/A, then below A/A, whether or not the Bonds are rated by any securities rating agency. For purposes of this definition, S&P’s rating categories of “AAA,” “AA,” and “A-” and Moody’s rating categories of “Aaa,” “Aa3” and “A3,” shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the Bonds are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there is no rating, then the Dutch-Auction Rate shall be the Maximum Dutch-Auction Rate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the Corporation, the Trustee and each Broker-Dealer.

“Reference Rate” shall have the meaning specified in “Reference Rate” of this APPENDIX B.

“Regular Record Date” means the Bonds while they bear interest at the Dutch-Auction Rate, the Business Day immediately preceding an Interest Payment date.

“Securities Depository” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

“Sell Order” has the meaning specified in “Orders by Existing Owners and Potential Owners” of this APPENDIX B.

“Special Rate Period” means any period of not less than seven nor more than 1,092 days which begins on an Interest Payment Date and ends on a day of the week immediately prior to a normal Interest Payment Date unless such day of the week immediately prior to a normal Interest Payment Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submitted Bid” has the meaning specified in “Determination of Dutch-Auction Rate” of this APPENDIX B.

“Submitted Hold Order” has the meaning specified in “Determination of Dutch-Auction Rate” of this APPENDIX B.

“Submitted Order” has the meaning specified in “Determination of Dutch-Auction Rate” of this APPENDIX B.

“Submitted Sell Order” has the meaning specified in “Determination of Dutch-Auction Rate” of this APPENDIX B.

“Sufficient Clearing Bids” means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Dutch-Auction Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Dutch-Auction Rate.

“Winning Bid Rate” means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Dutch-Auction Rate would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

Auction Procedures

Orders by Existing Owners and Potential Owners.

- (a) Prior to the Submission Deadline on each Auction Date:
 - (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:
 - (A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,
 - (B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or
 - (C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and
 - (ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order”, an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid”, and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

- (b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:
 - (A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(v) of the section below entitled “Allocation of Bonds” if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iv) of the section below entitled “Allocation of Bonds” if such specified rate shall be higher than the Maximum Dutch-Auction Rate and Sufficient Clearing Bids do not exist.

sell: (ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iv) of the section below entitled “Allocation of Bonds” if Sufficient Clearing Bids do not exist.

purchase: (iii) A Bid by a Potential Owner shall constitute an irrevocable offer to

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(vi) of the section below entitled “Allocation of the Bonds” hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest

Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Authority of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any Bond when due but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, if requested, with respect to each Order:

(i) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(ii) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Neither the Authority, the Corporation, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Determination of Dutch-Auction Rate.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the All Hold Rate, the Maximum Dutch-Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Dutch-Auction Rate for the New Auction Period shall be the same as the Dutch-Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Dutch-Auction Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion from a Dutch-Auction Mode to another Mode or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Dutch-Auction Rate for the next Auction Period shall be the Maximum Dutch-Auction Rate and the Auction Period shall be a seven-day Auction Period.

Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Dutch-Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Dutch-Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Dutch-Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Dutch-Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of Bonds on any

Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Dutch-Auction purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

Notice of Dutch-Auction Rate.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following:

(i) the Dutch-Auction Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Dutch-Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each

Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Reference Rate.

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of less than 180 days shall be the greater of LIBOR or the Thirty-Day "AA" Composite Commercial Paper Rate on such date. The Reference Rate with respect to Bonds in any Auction Period of 180 days or more shall be the greater of LIBOR or the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in The Wall Street Journal. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority.

"Thirty-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the Thirty-Day rate on commercial paper placed on behalf of non financial issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by (A) the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent before the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definitions of Thirty-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Thirty-Day "AA" Composite Commercial Paper Rate, the Thirty-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley Dean Witter or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee (who shall be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this Section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the Authority, the Corporation the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Miscellaneous Provisions Regarding Auctions.

(a) In this APPENDIX B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During a Dutch-Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this APPENDIX B, including without limitation the definitions of All Hold Rate, Default Rate, Interest Payment Date, Maximum Dutch-Auction Rate, Reference Rate, Applicable Percentage and Dutch-Auction Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all Outstanding Bonds bearing interest at a Dutch-Auction Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Outstanding Bonds as required by the Indenture, (i) the Dutch-Auction Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Bonds bearing interest at a Dutch-Auction Rate.

(c) During a Dutch-Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any Dutch-Auction Rate Period, the Corporation, with the consent of the Authority, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds among daily, seven-days, 28-days, 35-days, six months and a Special Rate Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Authority, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the

conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28- days, 35-days, six months or a Special Rate Period and shall be for all of the Bonds in a Dutch-Auction Rate Period.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authority consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Dutch-Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any Dutch-Auction Rate Period, the Auction Agent, with the written consent of the Corporation, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Corporation, the Broker-Dealers and the Securities Depository.

Auction Agent.

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the Corporation, to perform the functions specified in the Indenture. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument, delivered to the Corporation, the Trustee, the Authority and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Authority and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

Qualifications of Auction Agent; Resignation; Removal. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least ninety (90) days notice to the Corporation, the Authority, and the Trustee. The Auction Agent may be removed at any time by the Corporation by written notice, delivered to the Auction Agent, the Authority, and the Trustee. Upon any such resignation or removal, the Trustee shall, at the written direction of the Corporation, appoint a successor Auction Agent meeting the requirements of the Indenture. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee, at the written direction of the Corporation. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Corporation, the Authority and the Trustee even if a successor Auction Agent has not been appointed.

APPENDIX C
FORM OF BOND COUNSEL OPINION

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APPENDIX C
FORM OF BOND COUNSEL OPINION

[Closing Date]

ABAG Finance Authority for Nonprofit Corporations
Oakland, California

ABAG Finance Authority for Nonprofit Corporations
Variable Rate Demand Revenue Bonds, Series 2005 (Air Force Village West, Inc)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) of \$23,000,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds, Series 2005 (Air Force Village West, Inc) (the “Bonds”), issued pursuant to the provisions of the Joint Exercise of Powers Act, constituting Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California and an indenture, dated as of April 1, 2005 (the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Air Force Village West, Inc. (the “Corporation”) pursuant to a loan agreement, dated as of April 1, 2005 (the “Loan Agreement”), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture; the Loan Agreement; the Tax Certificate and Agreement, dated the date hereof (the “Tax Certificate”), between the Authority and the Corporation; opinions of counsel to the Authority, the Trustee and the Corporation; certificates of the Authority, the Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Corporation to be organized and operated in

accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, 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 and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement 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 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, the Loan Agreement 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 authorities of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, 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 Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. We also express no opinion regarding the validity of any law, document or instrument (except the Bonds, the Indenture and the Loan Agreement to the extent specifically set out below) that may be related to

the issuance, payment or security of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement 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 the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and funds held to pay the Purchase Price of any Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).

3. The Loan Agreement has been duly executed and delivered and constitutes a valid and binding agreement of the Authority.

4. 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 assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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