**NEW ISSUE—BOOK-ENTRY ONLY** **RATING: Moody's: "A1/VMIG1"**

*In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from current State of California personal income taxes. For a more complete description, see the caption "TAX MATTERS" in this Official Statement.*

# $4,000,000
# ABAG Finance Authority For Nonprofit Corporations
# Variable Rate Demand Revenue Bonds
# (The Grauer Foundation for Education Project)
# Series 2006

**Dated: Date of Delivery** **CUSIP: 00037C GY 0** **Due: January 1, 2031**

The Bonds are being issued pursuant to an Indenture of Trust, dated as of January 1, 2006 (the "Indenture"), between the ABAG Finance Authority For Nonprofit Corporations (the "Authority") and Wells Fargo Bank, National Association, as trustee and tender agent (the "Trustee"), all as more fully described herein. The Bonds are payable by the Trustee from the Revenues pledged under the Indenture as described herein, which generally consist of loan repayments required to be made by The Grauer Foundation for Education (the "Borrower") under a Loan Agreement (the "Loan Agreement"), dated as of January 1, 2006, between the Authority and the Borrower.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry-only form. Principal, redemption premium, if any, Purchase Price and interest payments on the Bonds are to be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. Upon receipt of payments of principal of and interest on the Bonds, DTC is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds.

The Bonds will be dated the Date of Delivery, will initially bear interest at a Weekly Interest Rate unless and until converted to another permitted Interest Rate Mode as described herein, and will be initially issued in denominations of $100,000 and any multiple of $5,000 in excess thereof in fully registered form, without coupons. While the Bonds bear interest at a Weekly Rate, interest will be paid on the first Business Day of each month of each year commencing on February 1, 2006. The Interest Rate Mode may be converted to and from a Weekly, One Month, Three Month, Six Month, One Year, Five Year and Fixed Interest Rate Mode; provided, however, that if the Borrower elects to convert the Bonds to the Fixed Interest Rate, no further conversion of Interest Rate Modes is permitted. Except for the initial Weekly Interest Rate, to be determined by the Underwriter, interest rates are to be determined by Comerica Securities, Inc., as Remarketing Agent.

The Bonds are payable from and supported primarily by funds to be drawn under an irrevocable, direct pay Letter of Credit to be provided by

# Comerica Bank

which will permit the Trustee to draw an amount sufficient to pay (a) the principal or redemption price or (if not paid from remarketing proceeds) the purchase price of the outstanding Bonds; plus (b) while the Bonds bear interest at the Weekly Interest Rate, up to 49 days' accrued interest on the outstanding Bonds computed at an assumed maximum rate of 12% per annum. The Letter of Credit will expire or terminate on January 19, 2010, unless extended by the Bank or terminated earlier in accordance with its terms. See "THE BANK AND THE INITIAL LETTER OF CREDIT," herein. Unless the Letter of Credit is extended or replaced, or certain other conditions are met, the Bonds will be subject to mandatory purchase prior to the termination of the Letter of Credit. **A DEFAULT BY THE BORROWER UNDER THE REIMBURSEMENT AGREEMENT WITH THE BANK COULD CONSTITUTE AN EVENT OF DEFAULT UNDER THE INDENTURE AND RESULT IN THE ACCELERATION OR MANDATORY PURCHASE OF THE BONDS PRIOR TO THEIR MATURITY.**

The Bonds are subject to mandatory and optional redemption prior to maturity and, prior to the Fixed Rate Conversion Date, the Bonds are also subject to optional and mandatory tender for purchase, as described herein.

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

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. POTENTIAL INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED SHOULD HAVE THE MEANINGS SET FORTH HEREIN.**

*The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and to the approval of Kutak Rock LLP, Pasadena, California, Bond Counsel. Certain legal matters will be passed upon for the Borrower by its counsel, Dostart Clapp Gordon & Coveney, LLP San Diego, California, for the Authority by its special counsel, Nixon Peabody LLP, San Francisco, California, and for the Bank by its counsel, Buchalter Nemer, Los Angeles, California. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about January19, 2006.*

# Comerica Securities, Inc.

**Dated: January 18, 2006**

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon.

The information relating to the Authority contained herein under the heading "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority" has been furnished by the Authority. The information set forth under the caption "THE BANK AND THE INITIAL LETTER OF CREDIT" and "SUMMARY OF THE REIMBURSEMENT AGREEMENT" has been furnished by Comerica Bank (the "Bank"); and the information set forth herein under the caption "THE BONDS—Registration, Payment, Transfer and Exchange; Book-Entry Form" has been furnished by The Depository Trust Company ("DTC"). All other information contained herein has been obtained from the Corporation and other sources (other than the Authority) that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by and is not to be relied upon or construed as a promise or representation by the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the Bank, DTC or the Borrower since the date hereof.

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR OTHER SIMILAR WORDS.

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

TABLE OF CONTENTS


INTRODUCTION ....1
THE AUTHORITY ....2
THE BONDS ....3
General ....3
Registration, Payment, Transfer and Exchange; Book-Entry Form ....3
Interest ....6
Interest Rate Modes ....6
Conversion Between Interest Rate Modes ....9
Redemption Prior to Maturity ....11
Optional Tender for Purchase ....18
Mandatory Tender Upon Conversion to a New Interest Rate Mode ....20
Mandatory Tender Upon Delivery of an Alternate Letter of Credit ....20
Mandatory Tender Upon Expiration of the Letter of Credit, Failure of the Bank To Reinstate Letter of Credit or Default Under the Reimbursement Agreement ....21
Tender Process for Beneficial Ownership Interests ....22
Matured or Redeemed Bonds ....23
Remarketing of Tendered Bonds or Beneficial Ownership Interests ....23

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS ....23
Limited Obligations ....23
Pledge of Revenues; Assignment ....23
Additional Bonds ....24

THE BANK AND THE INITIAL LETTER OF CREDIT ....25
The Initial Letter of Credit ....25
Renewal of Initial Letter of Credit ....25
The Bank ....26

SUMMARY OF THE REIMBURSEMENT AGREEMENT ....26
Alternate Letter of Credit ....26

THE PROJECT ....26
ESTIMATED SOURCES AND USES OF FUNDS ....26
BONDHOLDERS' CONSIDERATIONS ....27
General ....27
Other Risk Factors Affecting the Borrower ....27
Limited Obligations ....27
Payment of Debt Service ....28
Financial Status of the Borrower and the Project ....28
The Letter of Credit; Default by the Bank ....28
Bonds Not Secured by Real or Personal Property ....28
Tax Exempt Status of the Borrower ....28
Enforceability of Remedies ....30
Early Redemption or Mandatory Tenders ....30
Factors That Could Affect the Enforceability of the Loan Agreement ....30
Bankruptcy ....30

ABSENCE OF MATERIAL LITIGATION ....31
TAX MATTERS ....31
APPROVAL OF VALIDITY ....32
UNDERWRITING ....32
RATING ....33
CONTINUING DISCLOSURE ....33
MISCELLANEOUS ....34
APPENDIX A CERTAIN INFORMATION REGARDING THE BANK
APPENDIX B DEFINITIONS OF CERTAIN TERMS
APPENDIX C FORM OF OPINION OF BOND COUNSEL
APPENDIX D SUMMARY OF THE REIMBURSEMENT AGREEMENT

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**OFFICIAL STATEMENT**

# $4,000,000
# ABAG Finance Authority For Nonprofit Corporations
# Variable Rate Demand Revenue Bonds
# (The Grauer Foundation For Education Project)
# Series 2006

## INTRODUCTION

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery of $4,000,000 aggregate principal amount of Variable Rate Demand Revenue Bonds (The Grauer Foundation for Education Project) Series 2006 (the "Bonds") of the ABAG Finance Authority For Nonprofit Corporations (the "Authority"). All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Indenture, as defined below. See "APPENDIX B—"DEFINITIONS OF CERTAIN TERMS."

The Bonds will be issued pursuant to an Indenture of Trust, dated as of January 1, 2006 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the sale of the Bonds will be loaned by the Authority to The Grauer Foundation for Education (the "Borrower") pursuant to a Loan Agreement, dated as of January 1, 2006 (the "Loan Agreement"), between the Authority and the Borrower. The proceeds of such loan, together with other available funds, will be applied to pay the cost of or reimburse the Borrower for the cost of (1) constructing permanent school and foundation facilities, located at 1500 South El Camino Real, Encinitas, California 92024, consisting of classrooms, science labs, tutoring rooms, main office, athletic facilities, meeting and similar school rooms and related facilities, (2) equipping and furnishing various classrooms and related school facilities, (3) funding the cost of any insurance premium, letter of credit fees or other credit enhancement costs with respect to the financing, (4) paying capitalized interest with respect to the financing, (5) funding a reserve fund, if necessary, with respect to the financing and (6) paying certain costs of issuance in connection with the financing (collectively, the "Project"). See "THE PROJECT" herein.

The Borrower is a California nonprofit corporation qualified to do business in the State of California under the name "The Grauer Foundation for Education" and an organization described in Section 501(c)(3) of the Internal Revenue Code as amended (the "Code").

The Bonds are limited obligations of the Authority payable solely from certain revenues and other income derived by the Authority or paid to the Trustee with respect to the Bonds (collectively, the "Revenues"), including without limitation, (a) certain monthly loan repayments (the "Loan Repayments") and other payments made by the Borrower pursuant to the Loan Agreement; (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture (except certain administrative fees and expenses and the Rebate Fund); and (c) funds drawn under an irrevocable direct pay letter of credit, dated the date of initial issuance of the Bonds (the "Letter of Credit"), issued by Comerica Bank (the "Bank"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues; Assignment" herein

The principal of and interest on the Bonds are to be paid from the proceeds of draws under the Letter of Credit pursuant to a Reimbursement Agreement dated as of January 1, 2006 (the "Reimbursement Agreement"), by and between the Borrower and the Bank. The Borrower is to repay

drawings under the Letter of Credit, and the obligations of the Borrower to the Bank are secured as provided in the Reimbursement Agreement. The Bonds will initially bear interest at a tax-exempt rate.

The Bonds are being offered primarily on the basis of the Letter of Credit and the financial strength of the Bank, and are not being offered on the basis of the financial strength of the Borrower or any other security. The Bonds are subject to acceleration of maturity or mandatory purchase upon the occurrence of an Event of Default under the Reimbursement Agreement, which include the Borrower's failure to comply with its reimbursement obligation pursuant to the Reimbursement Agreement. Such events of default include all events defined as events of default in all other documents executed in connection with this transaction. All such events of default are not fully described herein. Consequently, prospective investors will not be able to fully evaluate the likelihood of a default under the Reimbursement Agreement and the resulting potential acceleration or mandatory purchase of the Bonds.

As long as the Bonds bear interest at an Adjustable Rate, the Indenture directs the Trustee to purchase the Bonds (or Beneficial Ownership Interests therein) upon demand by the registered owners of the Bonds (initially DTC or its nominee) (the "Registered Owners") or owners of Beneficial Ownership Interests (the "Beneficial Owners"). Any such purchases are to be made on the applicable Bond Purchase Date pursuant to the requirements of the Indenture as described in "THE BONDS—Optional Tender for Purchase." The Indenture provides for the remarketing of tendered Bonds or Beneficial Ownership Interests by the Remarketing Agent, initially Comerica Securities, Inc. If the proceeds of remarketing are not sufficient to purchase the Bonds or Beneficial Ownership Interests tendered for purchase, the Trustee is required to draw on the Letter of Credit to pay the applicable purchase price.

## THE AUTHORITY

The Authority is a joint powers agency 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, and the Act 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 ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR OF ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR OF ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY

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

## THE BONDS

### General

The Bonds are initially issued in fully registered book-entry-only form in denominations of $100,000 and increments of $5,000 in excess thereof and are dated and bear interest from the date of their initial delivery. The Bonds mature on January 1, 2031, are subject to redemption, tender for purchase and mandatory conversion to a taxable interest rate prior to maturity as described below. A DEFAULT UNDER THE REIMBURSEMENT AGREEMENT COULD, AT THE ELECTION OF THE BANK, CONSTITUTE AN EVENT OF DEFAULT UNDER THE INDENTURE AND RESULT IN THE ACCELERATION OR MANDATORY PURCHASE OF THE BONDS PRIOR TO THEIR MATURITY. THE LETTER OF CREDIT EXPIRES ON SEPTEMBER 14, 2010, AND IS SUBJECT TO TERMINATION AT AN EARLIER DATE AS PROVIDED FOR IN THE LETTER OF CREDIT. UNLESS THE LETTER OF CREDIT IS EXTENDED OR REPLACED, OR CERTAIN OTHER CONDITIONS ARE MET, THE BONDS ARE SUBJECT TO MANDATORY PURCHASE PRIOR TO THE EXPIRATION OR TERMINATION OF THE LETTER OF CREDIT.

In the event that the Bonds cease to be held in a Book-Entry System, the Bond Service Charges with respect to the Bonds will be payable as provided below in "Discontinuance of Book-Entry System."

### Registration, Payment, Transfer and Exchange; Book-Entry Form

The Bonds will be originally issued in book-entry-only form through the facilities of DTC, as Depository for the Bonds. So long as such Book-Entry System is used, only DTC or its nominee will receive or have the right to receive physical delivery of Bonds, and Beneficial Owners will not be considered, nor have any rights as, Registered Owners of the Bonds under the Indenture.

The following information about the DTC Book-Entry System has been supplied by DTC. Neither the Authority, the Trustee, the Borrower, the Bank, the Underwriter nor the Remarketing Agent makes any representations, warranties or guarantees with respect to the accuracy or completeness thereof.

DTC is acting as Depository for the Bonds. The Bonds are initially issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate for each maturity of the Bonds, each in the aggregate principal amount of such maturity will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission (the "Commission").

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchase of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of a 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 nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct 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 are to be sent to DTC. If less than all of the Bonds within a maturity 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 such other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, Purchase Price and interest payments on the Bonds are to be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners are 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 are 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 directly to the Trustee, and shall effect delivery of such Bonds by causing its nominee (or DTC if the Beneficial Owner is a DTC Participant) to transfer its ownership interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with a demand for purchase or mandatory purchase will be deemed satisfied when the right to exercise ownership rights in the Bonds through DTC is transferred by DTC on DTC's records.

DTC may discontinue providing its services as Depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor Depository is not obtained, Bond certificates are required to be printed and delivered as described under "—Discontinuance of Book-Entry System" below.

None of the Authority, the Borrower, the Bank, the Underwriter or the Trustee has any responsibility or obligation to any Participant or any Beneficial Owner, except as described with respect to the purchase of an ownership interest, or any other person not shown on the registration books of the Trustee as being a Registered Owner with respect to: (a) the Bonds; (b) the accuracy of any records maintained by DTC or any Participant; (c) the payment by DTC or any Participant of any amount due to any Beneficial Owner in respect of the Purchase Price of tendered Bonds, or the principal or redemption price of or interest on the Bonds; (d) the delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to Registered Owners; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (f) any consent given or other action taken by DTC as Registered Owner.

Each Beneficial Owner for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Participant, and to have notification made of all Bond Service Charge payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The Authority cannot and does not give any assurances that DTC, Participants or others will distribute payments of Bond Service Charges on the Bonds made to DTC or its nominee as the Registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC Participants will serve and act in the manner described in this Official Statement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE

BONDS, SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

**Interest**

The Bonds will bear interest in one of several Adjustable Rates: Weekly (being the initial Interest Rate Mode), One Month, Three Month, Six Month, One Year or Five Year ("Adjustable Rates"), or at a Fixed Interest Rate, referred to herein collectively as "Interest Rate Modes," described in "—Interest Rate Modes" below. The Borrower may from time to time, with the consent of the Bank, elect to convert the Interest Rate Mode as described under "—Conversion Between Interest Rate Modes" below; provided, however, that if the Borrower elects to convert the Bonds to the Fixed Interest Rate Mode, no further conversion of Interest Rate Modes is permitted.

The Bonds will bear interest in an Adjustable Rate for a period of time generally corresponding to the title of that Adjustable Rate (the "Interest Rate Period") at a rate determined by the Remarketing Agent (except for the initial Interest Rate Period, the rates for which will be determined by the Underwriter). The Remarketing Agent determines the interest rates for a particular Interest Rate Period on the Interest Rate Determination Date for such Interest Rate Period. The Interest Rate Periods and Interest Rate Determination Dates for each Adjustable Rate are described in "—Interest Rate Modes" below.

The Interest Payment Dates for the Bonds are as follows: (a) during any period that the Bonds bear interest at the Weekly Interest Rate, the first Business Day of each month, commencing February 1, 2006; (b) during any period that the Bonds bear interest at the One Month or Three Month Interest Rate, the first Business Day of each January, April, July and October; (c) during any period that the Bonds bear interest at the Six Month Interest Rate, the One Year Interest Rate, the Five Year Interest Rate or the Fixed Interest Rate, the first day of each February and August.

During any period that Bonds bear interest in the Weekly, One Month or Three Month Interest Rate Mode, such interest is to be calculated on the basis of 365 or 366 days, as applicable, for the number of days actually elapsed. During any period that Bonds bear interest in the Six Month, One Year, Five Year or Fixed Interest Rate Mode, such interest is to be calculated on the basis of a 360 day year consisting of twelve 30-day months. Any calculation of the interest rates to be borne by the Bonds is to be rounded to the nearest 0.01%. The computation of the interest rates on the Bonds by the Remarketing Agent or the Trustee, as applicable, will be binding and conclusive upon the Borrower, the Bank and the Registered Owners of the Bonds.

The Bonds will bear interest initially in the Weekly Interest Rate Mode. The initial interest rate on the Bonds will be the rate per annum, not to exceed the Maximum Rate, as determined by the Underwriter. Thereafter, the Bonds will bear interest at the applicable Weekly Interest Rate as determined by the Remarketing Agent on each Interest Rate Determination Date unless and until there has occurred a change to a different Interest Rate Mode on an applicable Interest Period Reset Date (described under "—Conversion Between Interest Rate Modes" below).

**Interest Rate Modes**

During the period that the Bonds bear interest in one of the Adjustable Rates, the interest rate for the Bonds for a particular Interest Rate Period is to be determined by the Remarketing Agent on the Interest Rate Determination Date, to be effective on the Interest Rate Adjustment Date for the succeeding Interest Rate Period.

The interest rate for the Bonds determined on the Interest Rate Determination Date is to be that rate of interest per annum which the Remarketing Agent determines to be the lowest interest rate, for the Interest Rate Period commencing on the next Interest Rate Adjustment Date, which in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) would enable the Bonds to be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period. In the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the appropriate interest rates on the Interest Rate Determination Date for whatever reason, the interest rates then in effect with respect to the Bonds, without adjustment, are to continue for the next Interest Rate Period. In no event, however, may any interest rates on the Bonds exceed the Maximum Rate.

On the Interest Rate Determination Date, the Remarketing Agent is to give the Trustee notice of the interest rates to be borne by the Bonds for the following Interest Rate Period. After any Interest Rate Determination Date, any Registered Owner or Beneficial Owner may contact the Trustee or the Remarketing Agent in order to be advised of the applicable interest rate. No notice of the applicable interest rate will be sent to the Registered Owners or Beneficial Owners; provided, however, in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the interest rate for whatever reason, then the Trustee shall give notice of the applicable interest rate to the Borrower and the Bank.

The determination of any interest rate by the Remarketing Agent is binding and conclusive upon the Borrower, the Bank and the Registered Owners of the Bonds.

The Interest Rate Modes and their Interest Rate Determination Dates, Interest Rate Adjustment Dates and Interest Rate Periods are as follows (all times are California time at the principal corporate trust office of the Trustee):

***Weekly Interest Rate***. The Interest Rate Period for the Weekly Interest Rate Mode is a period of one week commencing on an Interest Rate Adjustment Date of Thursday of each week, and the Interest Rate Determination Date is not later than 2:00 p.m. on Wednesday of each week (or the next preceding Business Day if Wednesday is not a Business Day).

In the event of a conversion to the Weekly Interest Rate Mode from a different Interest Rate Mode, the first Interest Rate Period may be less than one week. Such first Interest Rate Period commences on the Interest Period Reset Date, which is required to be the first Business Day of a month (or the first day of a month upon conversion from a Six Month, One Year or Five Year Interest Rate Mode) and ends on the next succeeding Wednesday. In such event, the Interest Rate Determination Date is not later than 2:00 p.m. on the Business Day preceding the Interest Period Reset Date.

In the event of a conversion from the Weekly Interest Rate Mode to a different Interest Rate Mode, the last Interest Rate Period may be less than one week as a result of such last Interest Rate Period ending on the day preceding the first Business Day or the first day of a month.

***One Month Interest Rate***. The Interest Rate Adjustment Date for the One Month Interest Rate Mode is the first Business Day of the month, and the Interest Rate Period is one month commencing on the first Business Day of the month to and including the day preceding the first Business Day of the next month. The Interest Rate Determination Date is the seventh Business Day preceding the first Business Day of the month.

***Three Month Interest Rate***. The Interest Rate Adjustment Date for the Three Month Interest Rate Mode is the first Business Day of the first month of the Interest Rate Period, and the Interest Rate Period commences on the applicable Interest Rate Adjustment Date and continues up to and including the day preceding the next Interest Rate Adjustment Date, ending on the day immediately preceding the first Business Day of January, April, July and October nearest to but not later than the date which is three months from the Interest Rate Adjustment Date. The Interest Rate Determination Date is the tenth Business Day before the Interest Rate Adjustment Date. In the event of a conversion to the Three Month Interest Rate Mode from another Interest Rate Mode, the first Interest Rate Adjustment Date is to be the Interest Period Reset Date for the Three Month Interest Rate Mode, which may be the first Business Day or the first day of any month. Accordingly, the first Interest Rate Period may be shorter than a full three months.

***Six Month Interest Rate***. The Interest Rate Adjustment Date for the Six Month Interest Rate Mode is the first day of the first month of the Interest Rate Period, and the Interest Rate Period is a six-month period commencing on the appropriate Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is six months from the Interest Rate Adjustment Date. The Interest Rate Determination Date is the tenth Business Day preceding the Interest Rate Adjustment Date. Upon a conversion to the Six Month Interest Rate Mode from another Interest Rate Mode, the first Interest Rate Adjustment Date is the Interest Period Reset Date for the Six Month Interest Rate Mode, which may be the first Business Day or the first day of any month. Accordingly, the first Interest Rate Period may be shorter than a full six months.

***One Year Interest Rate***. The Interest Rate Adjustment Date for the One Year Interest Rate Mode is the first day of the first month of the Interest Rate Period, and the Interest Rate Period is a one-year period commencing on the appropriate Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is one year from the Interest Rate Adjustment Date. The Interest Rate Determination Date is the tenth Business Day preceding the Interest Rate Adjustment Date. Upon a conversion to the One Year Interest Rate Mode from another Interest Rate Mode, the first Interest Rate Adjustment Date is to be the Interest Period Reset Date for the One Year Interest Rate Mode, which may be the first Business Day or the first day of any month. Accordingly, the first Interest Rate Period may be shorter than one full year.

***Five Year Interest Rate***. The Interest Rate Adjustment Date for the Five Year Interest Rate Mode is the first day of the first month of the Interest Rate Period, and the Interest Rate Period is a five-year period commencing on the appropriate Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is five years from the Interest Rate Adjustment Date. The Interest Rate Determination Date is the tenth Business Day preceding the Interest Rate Adjustment Date. Upon a conversion to the Five Year Interest Rate Mode from another Interest Rate Mode, the first Interest Rate Adjustment Date is to be the Interest Period Reset Date for the Five Year Interest Rate Mode, which may be the first Business Day or the first day of any month. Accordingly, the first Interest Rate Period may be shorter than five full years.

***Fixed Interest Rate***. In the Fixed Interest Rate Mode, there is only one Interest Rate Adjustment Date, which is the Interest Period Reset Date upon which such Fixed Interest Rate Mode commences. The Interest Rate Period commences on such Interest Rate Adjustment Date and continues to the final maturity of the Bonds. The Interest Rate Determination Date is the tenth Business Day preceding the Interest Rate Adjustment Date.

**Conversion Between Interest Rate Modes**

The Interest Rate Mode of the Bonds may be changed, at the election of the Borrower with the approval of the Bank, as of an Interest Period Reset Date in the manner described below. "Interest Period Reset Date" means the date on which the Bonds convert from one Interest Rate Mode to a different Interest Rate Mode. An Interest Period Reset Date is required to be the first Business Day of a month, except that upon conversion from a Six Month, One Year or Five Year Interest Rate Mode, an Interest Period Reset Date is to be the first day of a month, and except when converting from a Weekly Interest Rate Mode, an Interest Period Reset Date may not occur prior to the end of the preceding Interest Rate Period.

On the first Business Day of February, 2006, and on any Interest Period Reset Date thereafter, the Bonds may be converted to a different Interest Rate Mode upon receipt by the Trustee and the Remarketing Agent of a written direction from the Borrower, approved in writing by the Bank, given on behalf of the Authority, not less than 49 days prior to such Interest Period Reset Date, to convert the interest rate on the Bonds to an Interest Rate Mode other than the Interest Rate Mode then in effect. Except when converting from the Weekly Interest Rate and the One Month Interest Rate, no Interest Period Reset Date is to be earlier than the day after the end of the last Interest Rate Period for the Interest Rate Mode in effect on the date of such direction from the Borrower, the end of such Interest Rate Period to be determined as if such direction had not been given. Such direction to convert the Bonds to a different Interest Rate Mode is to be accompanied by (a) an opinion of Bond Counsel delivered to the Authority, the Trustee, the Bank and the Remarketing Agent, stating that such conversion to the specified Interest Rate Mode will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes; (b) a written certificate of the Remarketing Agent stating that they have received written confirmation from the Rating Service that the interest coverage period provided by the Letter of Credit is appropriate for the Interest Rate Mode directed to be in effect and that the Letter of Credit Termination Date is no earlier than 15 days after the end of the new Interest Rate Period, or if the conversion is to the Fixed Interest Rate, that the termination date of the Letter of Credit is no earlier than 15 days after the first Optional Redemption Date of the Bonds; and (c) a written certificate of the Remarketing Agent stating that it has received certifications, opinions or other evidence satisfactory to it that there has been or will be compliance with any applicable state or federal securities law requirements, including specifically the Disclosure Requirements as provided in the Loan Agreement, if applicable. If the Bonds bear interest at the Weekly Interest Rate, the interest coverage period for the Letter of Credit shall be not less than 49 days of interest at the Maximum Rate. If the Bonds bear interest at the One Month Interest Rate or the Three Month Interest Rate, the interest coverage period for the Letter of Credit must be at least 128 days of interest at the Maximum Rate; and if the Bonds bear interest at the Six Month Interest Rate, the One Year Interest Rate, the Five Year Interest Rate or the Fixed Interest Rate, the interest coverage period for the Letter of Credit must be at least 208 days of interest at the Maximum Rate. The Borrower is required to provide a Letter of Credit or an Alternate Letter of Credit which will provide the appropriate interest coverage.

Notwithstanding the foregoing, no conversion will be effective (a) if the proposed conversion is to a One Year Interest Rate, Five Year Interest Rate or Fixed Interest Rate and the Borrower makes an election on or prior to the day immediately succeeding any Interest Rate Determination Date not to proceed with the proposed conversion; (b) the Trustee has not received on the effective date of such conversion an opinion of Bond Counsel to the same effect as described in clause (a) of the previous paragraph; or (c) the Remarketing Agent has not determined an interest rate for the new Interest Rate Mode. In any such event, the Interest Rate Mode for the Bonds will remain as the Interest Rate Mode then in effect for the Bonds without regard to any proposed conversion. The Bonds will continue to be subject to tender for purchase on the scheduled effective date of the proposed conversion without

regard to the failure of such proposed conversion. If the Trustee has sent any notice to Registered Owners regarding the proposed conversion, then in the event of a failure of such conversion, as specified above, the Trustee is to promptly notify all Registered Owners of such failure, of the reason for such failure and of the continuation of the Interest Rate Mode then in effect.

On each Interest Rate Determination Date, the Remarketing Agent is to give the Trustee and the Borrower telephonic notice (immediately confirmed in writing) of the interest rate to be borne by the Bonds for the following Interest Rate Period; provided, however, in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the interest rate for whatever reason, then the Trustee shall give notice of the applicable interest rate to the Borrower and the Bank on the Interest Rate Determination Date.

If the Bonds are converted to a different Interest Rate Mode, at least 30 days prior to the Interest Period Reset Date the Trustee is to use its best efforts to notify the Registered Owners of all outstanding Bonds by telephone (to the extent their telephone numbers have been provided in writing to the Trustee), immediately confirmed by first-class mail to all Registered Owners, that upon such Interest Period Reset Date the Bonds will be converted to a different Interest Rate Mode, which Interest Rate Mode is to be specified, and that all Bonds and Beneficial Ownership Interests will be subject to a mandatory tender.

The Bank is not required to extend the expiration date of the Letter of Credit provided at the Date of Delivery or cover any additional interest because of a conversion to a different Interest Rate Mode.

So long as the Bonds are held by DTC or its nominee, Cede & Co., in book-entry-only form, the Trustee is to recognize and treat DTC or its nominee as the Registered Owner of Bonds for all purposes under the Indenture. See "—Registration, Payment, Transfer and Exchange; Book-Entry Form" above. Consequently, the foregoing notices of conversion are to be sent by the Trustee only to DTC or its nominee, and any corresponding notice to the Beneficial Owners is the responsibility of DTC and the applicable Direct Participant or Indirect Participant. Each Beneficial Owner of a Bond may desire to make arrangements with a Participant to receive notices or communications with respect to this matter.

The Borrower may elect to convert between Interest Rate Modes from time to time, as described above; provided, however, that if the Borrower elects to convert the Bonds to a Fixed Interest Rate Mode, no further conversion of Interest Rate Mode may be made.

The following table sets forth a brief summary of the Interest Rate Adjustment Dates, Interest Rate Determination Dates and Interest Rate Periods for the Adjustable Rate.

| Interest Rate Mode | Interest Rate Adjustment Date | Interest Rate Determination Date [1] | Interest Rate Period |
|---|---|---|---|
| Weekly | Thursday of each week | 2:00 p.m. on Wednesday of each week, or the preceding Business Day if Wednesday is not a Business Day [2] | One week commencing Thursday [2] |
| One Month | First Business Day of each month | Seventh Business Day preceding the Interest Rate Adjustment Date | One month commencing the first Business Day of the month |
| Three Month | First Business Day of each January, April, July and October | Tenth Business Day preceding the Interest Rate Adjustment Date | Three months commencing the first Business Day of January, April, July and October |
| Six Month | First day of the first month of the Interest Rate Period and thereafter January 1 and July 1 | Tenth Business Day preceding the Interest Rate Adjustment Date | Six months commencing January 1 and July 1 [3] |
| One Year | First day of the first month of the Interest Rate Period, and thereafter January 1 and July 1 | Tenth Business Day preceding the Interest Rate Adjustment Date | One year commencing January 1 or July 1 [3] |
| Five Year | First day of the first month of the Interest Rate Period, and thereafter January 1 and July 1 | Tenth Business Day preceding the Interest Rate Adjustment Date | Five years commencing January 1 and July 1 [3] |

[1] All times are California time at the principal corporate trust office of the Trustee.

[2] When converting from another Interest Rate Mode, the Interest Rate Determination Date for the Weekly Interest Rate Mode is not later than 2:00 p.m. on the Business Day before the Interest Period Reset Date. The first Interest Rate Period would commence on the Interest Period Reset Date and run through the following Wednesday.

[3] The first Interest Rate Period may be less than the indicated period when converting from another Interest Rate Mode.

**Redemption Prior to Maturity**

The Bonds are callable for redemption prior to maturity in the circumstances and in the manner described below.

***Mandatory Sinking Fund Redemption***. In the event the Bonds bear interest at the Five Year Interest Rate or the Fixed Interest Rate, the Bonds are subject to mandatory redemption pursuant to mandatory sinking fund requirements, at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date, on each January 1, commencing on the January 1 immediately succeeding the conversion to the Five Year Interest Rate or the Fixed Interest Rate, in the principal amounts in the amortization schedule set forth in the Reimbursement Agreement as that section is in effect 225 days prior to the conversion and set forth below:

The aggregate of the Loan Payments specified in the Loan Agreement which are to be deposited in the Bond Fund on each Loan Payment Date, are to include amounts sufficient to redeem the principal amount of Bonds subject to mandatory redemption pursuant to mandatory sinking fund requirements (less the amount of any credit as provided below).

The Authority, or the Borrower on behalf of the Authority, has the option to deliver to the Registrar for cancellation Bonds in any aggregate principal amount and receive a credit against the then current mandatory sinking fund requirement (and corresponding mandatory redemption obligation) of the Authority. Such option is to be exercised by the Authority, or the Borrower on behalf of the Authority, on or before the forty-fifth day preceding the applicable mandatory sinking fund redemption date, by furnishing the Trustee a certificate, executed by an Authorized Borrower Representative, setting forth the extent of the credit to be applied with respect to the then current mandatory sinking fund requirements, and the Bonds to be so credited. If the certificate and the Bonds to be credited are not timely furnished to the Trustee, the mandatory sinking fund requirement (and corresponding mandatory redemption obligation) is not to be reduced. With the prior written consent of the Bank, credit against the then current mandatory sinking fund requirement (and corresponding mandatory redemption obligation) also will be given to the Authority for any Bonds which prior thereto have been redeemed (other than through the operation of the mandatory sinking fund requirements) or purchased for cancellation and cancelled by the Trustee, to the extent not applied theretofore as a credit against any redemption obligation.

Except as otherwise provided in the preceding paragraph, each Bond previously redeemed, or purchased and cancelled, is to be credited by the Trustee at 100% of the principal amount thereof against the mandatory sinking fund requirements (and corresponding mandatory redemption obligations) in inverse order of the maturity of the mandatory sinking fund requirements.

***Optional Redemption***. Unless previously redeemed, the Bonds are subject to redemption (from funds other than those deposited in accordance with the mandatory sinking fund requirements of the Indenture), at the option of the Authority, upon the direction of the Borrower and with the prior written consent of the Bank (subject to compliance with the provisions of "—Authority's Election to Redeem" below), (a) if the Bonds do not bear interest at the Fixed Interest Rate, in whole or in part (in integral multiples of $5,000; provided that the unredeemed portion of any Bond redeemed in part is to be $100,000 or more) on any Interest Rate Adjustment Date at the redemption price of 100% of the principal amount redeemed plus accrued interest thereon to the redemption date; and (b) after the Fixed Interest Rate Commencement Date and on or after the First Optional Redemption Date, in whole or in part (in integral multiples of $5,000) at any time at a redemption price of 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption.

The Reimbursement Agreement requires the Borrower to exercise its option to redeem Bonds in accordance with the schedule set forth therein.

***Extraordinary Optional Redemption***. The Bonds, together with any Additional Bonds, also are subject to redemption by the Authority in the event of the exercise by the Borrower, with the written consent of the Bank, of its option (subject to compliance with the provisions of "—Authority's Election to Redeem" below) to direct that redemption upon occurrence of certain events (a) at any time in whole, or (b) at any time in part upon the occurrence of the events permitting partial redemption as provided in the Loan Agreement, in each case at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date.

The events giving rise to a redemption in whole are as follows:

(a) The Facilities has been damaged or destroyed to such an extent that (i) the Facilities cannot reasonably be expected to be restored, within a period of three months, to the condition thereof immediately preceding such damage or destruction; or (ii) normal use and operation of the Facilities is reasonably expected to be prevented for a period of three consecutive months.

(b) Title to, or the temporary use of, all or a significant part of the Facilities has been taken under the exercise of the power of eminent domain (i) to such extent that the Facilities cannot reasonably be expected to be restored within a period of three months to a condition of usefulness comparable to that existing prior to the taking; or (ii) as a result of the taking, normal use and operation of the Facilities is reasonably expected to be prevented for a period of three consecutive months.

(c) As a result of any changes in the constitution of the State, the Constitution of the United States of America, or state or federal laws, or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Authority, the Trustee or the Borrower in good faith, the Loan Agreement has become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement, or if unreasonable burdens or excessive liabilities shall have been imposed with respect to the Facilities or the operation thereof, including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement other than ad valorem taxes presently levied upon privately owned property used for the same general purpose as the Facilities.

Under the Loan Agreement, the Borrower has the option, with the prior written consent of the Bank, in the event that title to or the temporary use of a portion of the Facilities is taken under the exercise of the power of eminent domain, even if the taking is not of such nature as to permit the exercise of the redemption option upon an event specified in paragraph (b) above, to direct the redemption, at a redemption price of 100% of the principal amount thereof prepaid, plus accrued interest to the redemption date, of that part of the outstanding principal balance of the Bonds as may be payable from the proceeds received by the Borrower (after the payment of costs and expenses incurred in the collection thereof) in the eminent domain proceeding, provided that the Borrower furnishes to the Authority and the Trustee a certificate of an Engineer stating that (a) the property comprising the part of the Facilities taken is not essential to continued operations of the Facilities in the manner existing prior to that taking, (b) the Facilities have been restored to a condition substantially equivalent to that existing prior to the taking, or (c) other improvements have been acquired or made which are suitable for the continued operation of the Facilities.

***Redemption of Bank Bonds Upon Direction of Bank***. If any Bond has been a Bank Bond for more than 90 days, or if directed by the Bank as the result of an event of default under the Reimbursement Agreement, the Bank may direct that (a) any such Bank Bond be redeemed, or (b) all of the Bonds be redeemed.

***Use of Certain Funds To Redeem Bonds***. Except as provided in the Indenture with respect to the payment and discharge of Bonds, the Trustee is to pay the redemption price on all Bonds redeemed as provided above in the same manner and from the same sources as provided in the

Indenture for the payment of Bond Service Charges. The Trustee will only utilize Eligible Funds to redeem the Series 2006 Bonds, unless such Series 2006 Bonds being redeemed are Bank Bonds.

***Partial Redemption***. Bank Bonds are to be redeemed prior to (or simultaneously with) the redemption of any other Bonds as provided in "—Optional Redemption" or "—Extraordinary Optional Redemption" above. If fewer than all of the Bonds of a single maturity are to be redeemed, the selection of Bonds to be redeemed, or portions thereof, in amounts equal to $5,000 or any integral multiple thereof is to be made by lot by the Trustee in any manner which the Trustee may determine; provided that Bank Bonds are to be redeemed prior to (or simultaneously with) the redemption of any other Bonds as provided in "—Optional Redemption" or "—Extraordinary Optional Redemption" above; provided that the Trustee is to select Bonds for redemption so as to assure that after such redemption no Registered Owner will retain Bonds in an aggregate amount less than $100,000, or $5,000 in the case of Bonds bearing interest at a Fixed Interest Rate; and provided further that, if less than all of an outstanding Bond of one maturity in a Book-Entry System is to be called for redemption, the Trustee is to give notice to the Depository or the nominee of the Depository that is the Registered Owner of such Bond, and the selection of the Beneficial Ownership Interests in that Bond to be redeemed is to be at the sole discretion of the Depository and its Participants. In the case of a partial redemption of Bonds by lot, each unit of face value of principal thereof equal to $5,000 (each such $5,000 unit is hereinafter referred to as a "Unit") is to be treated as though it were a separate Bond in the amount of such Unit. If it is determined that one or more, but not all, of the Units represented by a Bond are to be called for redemption, then upon notice of redemption of a Unit or Units of Bonds, the Registered Owner of that Bond is to surrender the Bond to the Trustee (a) for payment of the redemption price of the Unit or Units of Bonds called for redemption (including, without limitation, the interest accrued to the date fixed for redemption and any premium); and (b) for issuance, without charge to the Registered Owner thereof, of a new Bond or Bonds of the same series, of $100,000 or $5,000 in the case of Bonds bearing interest at a Fixed Interest Rate or amounts in excess thereof in such integrals as are permitted hereunder, aggregating a principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturing on the same date as, the Bond surrendered.

***Authority's Election To Redeem***. Except in the case of redemption pursuant to any mandatory sinking fund requirements or pursuant to other mandatory redemption provisions of the Indenture, Bonds are to be redeemed only by written notice from the Authority to the Trustee and the Bank, given at the direction of the Borrower, or by written notice from the Borrower to the Trustee and the Bank on behalf of the Authority. Such notice is to specify the redemption date and the principal amount of each maturity of Bonds to be redeemed, and is to be given at least 45 days prior to the redemption date or such shorter period as is acceptable to the Trustee.

***Notice of Redemption***. Unless waived by any Registered Owner of Bonds to be redeemed, official notice of any redemption of Bonds is to be given by the Registrar or the Trustee on behalf of the Authority by mailing a copy of an official redemption notice by first-class mail at least 30 days and not more than 60 days prior to the date fixed for redemption (except in the case of redemption provided in "—Extraordinary Optional Redemption" above, in which case such notice is to be given five days and not more than 15 days prior to the date fixed for redemption, or, in the case of redemption provided in "—Redemption of Bonds Upon Direction of Bank" above, in which case such notice is to be given immediately) to the registered owner of the Bond or Bonds to be redeemed at the address shown on the Register or at such other address as is furnished in writing by such registered owner to the Registrar. Such notices of redemption also are to be provided to the Bank.

All official notices of redemption are to be dated and state: (a) the redemption date; (b) the redemption price; (c) if less than all outstanding Bonds are to be redeemed, the identification by

designation, letters, numbers or other distinguishing marks (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed; (d) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and (e) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment is to be the principal corporate trust office of the Registrar.

In addition to the foregoing notice, further notice is to be given by the Trustee as provided below, but no defect in such further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above. Each further notice of redemption is to contain the information required above for an official notice of redemption plus (a) the CUSIP numbers of all Bonds being redeemed; (b) the date of issue of the Bonds as originally issued, (c) the rate of interest borne by each Bond being redeemed, (d) the maturity date of each Bond being redeemed, and (e) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption is to be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds (the only such depository now being Depository Trust Company of New York, New York) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

Failure to receive notice by mailing or any defect in that notice regarding any Bond, however, is not to affect the validity of the proceedings for the redemption of any other Bond.

Notice of any redemption with respect to Bonds held under a Book-Entry System is to be given by the Registrar or the Trustee only to the Depository, or its nominee, as the Registered Owner of such Bonds. Selection of book-entry interests in the Bonds called for redemption is the responsibility of the Depository and any failure of any Direct Participant, Indirect Participant or Beneficial Owner to receive such notice and its contents or effect will not affect the validity of such notice or any proceedings for the redemption of such Bonds.

***Payment of Redeemed Bonds***. Notice having been mailed to the Registered Owner of the Bond or Bonds to be redeemed in the manner provided in "—Notice of Redemption" above, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, are to be paid at the redemption price, including interest accrued to the redemption date. The Trustee is to make a drawing under the Letter of Credit to pay the principal of and interest due on the Bonds being redeemed. Any moneys received by the Trustee from the Borrower which are available to be applied toward the payment of such principal and interest are to be paid to the Bank to reimburse the Bank for any drawing made under the Letter of Credit to pay such principal and interest.

Subject to the provisions of the Indenture regarding payments due on Saturdays, Sundays and holidays, if money for the redemption of all of the Bonds and portions thereof to be redeemed, together with interest accrued thereon to the redemption date, is held by the Trustee or any Paying Agent on the redemption date, so as to be available therefor on that date, and if notice of redemption has been deposited in the mail to the Registered Owner of the Bond or Bonds to be redeemed as provided in "—Notice of Redemption" above, then from and after the redemption date those Bonds and portions thereof called for redemption will cease to bear interest and no longer be considered to be outstanding under the Indenture; otherwise, the Bonds and portions thereof will continue to bear interest, until they are paid, at the same rate or rates as they would have borne had they not been called for redemption.

All moneys deposited in the Bond Fund and held by the Trustee or a Paying Agent for the redemption of particular Bonds are to be held in trust for the account of the Registered Owners thereof and are to be paid to them, respectively, upon presentation and surrender of such Bonds, except as provided in the Indenture with respect to a transfer of Bonds.

***Purchase of Bonds in Lieu of Redemption***. The Bank (if the Bank is purchasing the Bonds in lieu of redemption with the proceeds of a draw under the Letter of Credit), or the Borrower (with a draw under the Letter of Credit or such other available Eligible Funds) has the right to purchase all Bonds called for redemption, in lieu of such redemption, at a purchase price equal to the applicable redemption price, plus accrued interest to the purchase date (which purchase date is to be the date such Bonds would otherwise have been redeemed in accordance with the applicable provisions of the Indenture). In order to exercise such right to purchase Bonds in lieu of redemption, the Bank or the Borrower, as may be applicable, is to deliver to the Trustee before 9:00 a.m., California time, on the Business Day immediately preceding such redemption date written notice specifying the principal amount of Bonds to be purchased in lieu of redemption (which principal amount is to be equal to the principal amount of all Bonds otherwise subject to redemption), together with funds which shall constitute Eligible Funds which are sufficient to pay the applicable redemption price, plus accrued interest thereon, to such redemption date. In the event the Trustee receives a written direction from the Borrower or the Bank, as may be applicable, to purchase Bonds in the manner permitted by the Indenture, and has on deposit funds derived from a Letter of Credit or such other available Eligible Funds, such funds are to be applied to the purchase of Bonds in lieu of such redemption in the event the Borrower or the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) delivers to the Trustee before 9:00 a.m., California time, on the Business Day immediately preceding such redemption date written notice specifying that the Bonds are to be purchased in lieu of such redemption and that such funds then on deposit with the Trustee are to be applied to such purchase.

All moneys received by the Trustee from the Bank or the Borrower, as the case may be, for the purchase of Bonds in lieu of redemption as set forth in the previous paragraph are to be deposited by the Trustee in a segregated subaccount of the Bond Fund (or, in the event moneys held by the Trustee are to be applied for such purchase as contemplated by the last sentence of the previous paragraph, such moneys are to be transferred by the Trustee to a segregated subaccount of the Bond Fund) and held in trust for the benefit of the owners of the Bonds to be purchased in lieu of redemption. The Trustee, on behalf of the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit), or the Borrower, as may be applicable, is to pay from a segregated subaccount of the Bond Fund the applicable redemption price of Bonds purchased in lieu of redemption to the former owners of the Bonds upon delivery of such Bonds to the Trustee. If for any reason an owner fails to deliver a Bond or Bonds to the Trustee for purchase in lieu of redemption, then from and after the date set for such redemption, such Bond or Bonds, in the hands of such owner, will cease to bear interest to such owner, and the rights of such owner will be limited to the receipt of funds representing payment of principal of such Bond or Bonds and interest thereon to the redemption date. On such purchase date, the Authority is to execute and the Trustee is to authenticate for delivery to the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) or the Borrower (with a draw under the Letter of Credit or such other available Eligible Funds), as may be applicable, as the owner, a new Bond or Bonds in replacement of the Bond or Bonds not so delivered, and the Trustee is to hold the moneys deposited in a segregated subaccount of the Bond Fund to pay the redemption price of such Bond or Bonds in trust for the person failing to so deliver the Bond or Bonds to the Trustee for redemption, without liability for interest thereon. The replacement of any such previously outstanding Bond will not be deemed to create any new indebtedness, but such Bond as is issued in replacement will be deemed to evidence the indebtedness previously evidenced by the Bond not so delivered.

Bonds purchased in lieu of redemption by the Trustee at the direction of the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) are to be delivered by the Trustee to the Bank as Repurchased Bank Bonds (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) and registered in the name of the Bank or its designee (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit). Such Repurchased Bank Bonds are to be held by the Trustee, upon the written direction of the Bank to the Trustee, until the Trustee receives (a) written direction from the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) to request that such Repurchased Bank Bonds be remarketed by the Remarketing Agent, and (b) written evidence from the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) that the principal and purchase price of and interest on such Repurchased Bank Bonds are thereafter secured by a Letter of Credit meeting the requirements of the Indenture. Upon receipt by the Trustee of the written direction and written evidence specified in the preceding clauses (a) and (b), such Repurchased Bank Bonds will be subject to mandatory tender for purchase on the date they become secured by a Letter of Credit or Alternate Credit Facility.

Bonds purchased in lieu of redemption by the Trustee at the direction of the Borrower are to be delivered by the Trustee to the Borrower as Repurchased Bank Bonds, which Repurchased Bank Bonds may be held by the Trustee, upon written direction of the Borrower to the Trustee, for the Borrower and registered in the name of the Borrower. Such Repurchased Bank Bonds are to be held by the Trustee until the Trustee receives (a) written direction from the Borrower or the Bank, as may be applicable, to release such Repurchased Bank Bonds and cause such Repurchased Bank Bonds to be remarketed by the Remarketing Agent; and (b) written evidence from the Borrower or the Bank, as may be applicable, that such Repurchased Bank Bonds are thereafter secured by a Letter of Credit meeting the requirements of the Indenture. Upon receipt by the Trustee of the written direction and written evidence specified in the preceding clauses (a) and (b), such Repurchased Bank Bonds will be subject to mandatory tender for purchase on the date they become secured by a Letter of Credit.

The proceeds of the sale by the Remarketing Agent of any Repurchased Bank Bonds at the direction of the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) or the Borrower as provided above are to be deposited into a segregated subaccount of the Bond Fund. On the settlement date for such remarketing, following the Trustee's receipt of the Borrower's or the Bank's (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit) written direction and the written evidence referred to above, the Trustee is to pay the Borrower or the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit), as may be applicable, out of such segregated subaccount of the Bond Fund such proceeds of the remarketing of the Repurchased Bank Bonds as are required to fully reimburse the Borrower or the Bank (if the Bank is purchasing the Bonds in lieu of redemption with moneys drawn under the Letter of Credit), as applicable, for the purchase price of such Repurchased Bank Bonds. The Trustee thereupon is to register such Bonds in such names and deliver them to such new owners as shall have been specified to the Trustee by the Remarketing Agent.

No purchase of Bonds pursuant to this section or advance by or use of any funds of the Bank or the Borrower to effectuate any such purchase is to be deemed to be a payment or redemption of the Bonds or a prepayment of the amounts due from the Borrower under the Loan Agreement or of any portion thereof. Such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds, and such Bonds will remain outstanding.

To the extent that a purchase in lieu of redemption is initiated by the Borrower, the Borrower is required to obtain the prior written consent of the Bank if payment of the Bonds purchased in lieu of redemption will be made from moneys drawn under the Letter of Credit.

**Optional Tender for Purchase**

***Bonds in Weekly Rate Mode***. While the Bonds bear interest at the Weekly Interest Rate, each Registered Owner and each Beneficial Owner will have the option to tender for purchase, at 100% of the principal amount thereof plus accrued interest to the purchase date (a "Bond Purchase Date"), all of the Bonds owned by such Registered Owner, or all Beneficial Ownership Interests owned by such Beneficial Owner, as applicable, or (in either case) such lesser principal amount thereof (in denominations of $100,000 and integral multiples of $5,000 in excess thereof; provided that the untendered portion of any Bond or Beneficial Ownership Interest shall be $100,000 or more in principal amount) as such Registered Owner of Beneficial Owner, as applicable, may specify in accordance with the terms, conditions and limitations hereafter set forth. The purchase price of each such Bond or Beneficial Ownership Interest shall be payable in lawful money of the United States of America, and shall be paid in full on the applicable Bond Purchase Date.

To exercise the tender option when Bonds are in the Weekly Interest Rate Mode, the Registered Owner or Beneficial Owner, as applicable, is required to (a) give notice to the Trustee by telecopy or in writing which states (i) the name and address of the Registered Owner or Beneficial Owner, as applicable; (ii) the principal amount, CUSIP number and Bond numbers of the Bonds or Beneficial Ownership Interests to be purchased; (iii) the date on which such Bonds or Beneficial Ownership are to be purchased, which Bond Purchase Date is to be a Business Day not prior to the seventh day and not later than the fifteenth day next succeeding the date of giving of such notice to the Trustee and, if the interest rate on the Bonds is to be converted from the Weekly Interest Rate to a new Interest Rate Mode, is a date prior to the Interest Period Reset Date with respect to the new Interest Rate Mode; and (iv) that such notice is irrevocable; (b) in the case of a Beneficial Owner, provide the Trustee with evidence satisfactory to the Trustee of such Beneficial Owner's Beneficial Ownership Interest; (c) in the case of a Registered Owner, no later than 8:00 a.m., California time, at the principal corporate trust office of the Trustee on the second Business Day immediately preceding the applicable Bond Purchase Date, deliver to the principal corporate trust office of the Trustee the Bonds to be purchased in proper form, accompanied by fully completed and executed Instructions to Sell, the form of which will be printed on the Bonds; and (d) in the case of a Beneficial Owner, no later than 8:00 a.m., California time, at the principal corporate trust office of the Trustee, on the Bond Purchase Date, cause the transfer of the Beneficial Owner's Beneficial Ownership Interest on the records of the Depository in accordance with the instructions of the Trustee. In the case of a Bond or Beneficial Ownership Interest or portion thereof to be purchased prior to an Interest Payment Date and after the Record Date in respect thereof, the Registered Owner or Beneficial Owner, as applicable, is required to deliver a due-bill check, in form satisfactory to the Trustee, for interest due on such Interest Payment Date.

***Bonds in Other Adjustable Rate Mode***. While the Bonds bear interest at the One Month Interest Rate, the Three Month Interest Rate, the Six Month Interest Rate, the One Year Interest Rate or the Five Year Interest Rate, on each Interest Rate Adjustment Date (each a "Bond Purchase Date"), each Registered Owner and each Beneficial Owner will have the option to tender for purchase at 100% of the principal amount thereof plus accrued interest thereon all of the Bonds owned by such Registered Owner, or all Beneficial Ownership Interests owned by such Beneficial Owner, as applicable, or (in either case) such lesser principal amount thereof (in denominations of $100,000 and integral multiples of $5,000 in excess thereof; provided that the untendered portion of any Bond or Beneficial Ownership Interest is $100,000 or more in principal amount) as such Registered Owner or

Beneficial Owner, as applicable, may specify in accordance with the terms, conditions and limitations set forth hereafter. The purchase price for each such Bond or Beneficial Ownership Interest, or portion thereof, is to be payable in lawful money of the United States of America by check or draft, is to equal the principal amount, or such portion thereof, to be purchased plus accrued interest thereon and is to be paid in full on the applicable Bond Purchase Date.

To exercise the tender option when Bonds bear interest at an Adjustable Rate other than the Weekly Interest Rate Mode, the Registered Owner or Beneficial Owner, as applicable, is required to (a) no earlier than 15 days before the Bond Purchase Date and no later than 11:00 a.m., California time, at the principal corporate trust office of the Trustee on the eighth Business Day prior to the Bond Purchase Date, or in the event the Bonds bear interest at the One Month Interest Rate, the fifth Business Day prior to the Bond Purchase Date, give notice to the Trustee by facsimile or in writing which states (i) the name and address of the Registered Owner or Beneficial Owner, as applicable; (ii) the principal amount, CUSIP number and Bond numbers of the Bonds or Beneficial Ownership Interests to be purchased; (iii) that such Bonds or Beneficial Ownership Interests are to be purchased on such Bond Purchase Date pursuant to the terms of the Indenture; and (iv) that such notice is irrevocable; (b) in the case of a Beneficial Owner, provide the Trustee with evidence satisfactory to the Trustee of such Beneficial Owner's Beneficial Ownership Interest; (c) in the case of a Registered Owner, no later than 8:00 a.m., California time, at the principal corporate trust office of the Trustee on the seventh day preceding such Bond Purchase Date (or the next preceding Business Day if such seventh day is not a Business Day), or in the event the Bonds bear interest at the One Month Interest Rate, the fourth day preceding such Bond Purchase Date (or the next preceding Business Day if such fourth day is not a Business Day), deliver to the principal corporate trust office of the Trustee the Bonds to be purchased in proper form, accompanied by fully completed and executed Instructions to Sell, the form of which will be printed on the Bonds (the "Instructions to Sell"); and (d) in the case of a Beneficial Owner, no later than 8:00 a.m., California time, at the principal corporate trust office of the Trustee on the Bond Purchase Date, cause the transfer of the Beneficial Owner's Beneficial Ownership Interest on the records of the Depository, in accordance with the instructions of the Trustee.

***General***. Any Bonds for which a notice of tender has been given by the Registered Owner will be deemed to be tendered for remarketing notwithstanding any failure of delivery of such Bonds to the Trustee. Subject to the right of such Registered Owners to receive the purchase price of such Bonds and interest accrued thereon to the day preceding the applicable Bond Purchase Date (and subject to the conditions set forth in the Indenture with respect to mutilated, lost, wrongfully taken, undelivered or destroyed Bonds), such Bonds will be null and void and the Trustee is to authenticate and deliver new Bonds in replacement thereof pursuant to the remarketing of such Bonds or transfer of such Bonds to the Bank in lieu of remarketing such Bonds as provided in the Indenture. Any Beneficial Owners who have elected to tender Beneficial Ownership Interests will be obligated to transfer such Beneficial Ownership Interests on the records of the Depository.

Upon the giving of the notice as described in "—Bonds in Other Adjustable Rate Mode" with respect to Bonds or Beneficial Ownership Interests or portions of either, the Registered Owner's tender of such Bonds or portions thereof or the Beneficial Owner's tender of Beneficial Ownership Interests or portions thereof will be irrevocable. Upon receipt of the Bonds, the Trustee is to determine whether Instructions to Sell have been properly submitted and its determination will be binding. If less than all of a Bond so delivered or deemed tendered is to be purchased, the Trustee, pursuant to the Indenture, is to authenticate one or more Bonds in exchange therefor, registered in the name of such Registered Owner, having the aggregate principal amount being retained by such Registered Owner, and deliver such authenticated Bond or Bonds to such Registered Owner.

While tendered Bonds are in the custody of the Trustee pending purchase pursuant to the Indenture, the tendering Registered Owners thereof will be deemed the Registered Owners thereof for all purposes, and interest accruing on tendered Bonds through the day preceding the applicable Bond Purchase Date is to be paid from the Bond Fund as if such Bonds had not been tendered for purchase.

Notwithstanding anything to the contrary in the Indenture, any Bond or Beneficial Ownership Interest or portion thereof tendered pursuant to the Indenture will not be purchased if the Bond or any portion thereof matures or is redeemed on or prior to the applicable Bond Purchase Date, Mandatory Bond Purchase Date or Mandatory Tender Date.

**Mandatory Tender Upon Conversion to a New Interest Rate Mode**

If at any time the Authority, at the direction of the Borrower, converts the interest rate on the Bonds to a different Interest Rate Mode, on the Interest Period Reset Date upon which such conversion is effective, all Bonds and Beneficial Ownership Interests will be subject to mandatory tender by the Registered Owners or Beneficial Owners thereof for purchase on the Interest Period Reset Date (a "Bond Purchase Date") at a price of 100% of the principal amount thereof plus accrued interest to such Bond Purchase Date.

Bonds or Beneficial Ownership Interests will be deemed to have been tendered whether or not the Registered Owners or Beneficial Owners shall have delivered such Bonds or Beneficial Ownership Interests to the Trustee and without further action by the Beneficial Owners with regard to Beneficial Ownership Interests. Subject to the right of the Registered Owners or Beneficial Owners of such Bonds or Beneficial Ownership Interests to receive the purchase price of such Bonds or Beneficial Ownership Interests and interest accrued thereon to the Interest Period Reset Date (and subject to the conditions of the Indenture regarding mutilated, lost, wrongfully taken, undelivered or destroyed Bonds), such Bonds or Beneficial Ownership Interests will be null and void and the Trustee is to authenticate and deliver new Bonds in replacement thereof or new Beneficial Ownership Interests are to be recorded on the records of the Depository pursuant to the remarketing of such Bonds or Beneficial Ownership Interests or the pledge of such Bonds or Beneficial Ownership Interests to the Bank in lieu of remarketing such Bonds or Beneficial Ownership Interests as described below in "—Remarketing of Tendered Bonds or Beneficial Ownership Interests."

**Mandatory Tender Upon Delivery of an Alternate Letter of Credit**

If at any time the Borrower delivers to the Trustee an Alternate Letter of Credit in accordance with the Indenture, on a date selected by the Borrower, with the consent of the Trustee, which date is to be the Replacement Date (as defined in the Indenture) (a "Bond Purchase Date"), all Bonds and Beneficial Ownership Interests will be subject to mandatory tender by the Registered Owners or Beneficial Owners, as applicable, for purchase at a price of 100% of the principal amount thereof plus accrued interest to such Bond Purchase Date. At least 30 days prior to such Bond Purchase Date the Trustee is to use its best efforts to notify the Registered Owners of all outstanding Bonds by telephone (to the extent their telephone numbers have been provided in writing to the Trustee), immediately confirmed by first-class mail to all Registered Owners, that an Alternate Letter of Credit is to be delivered by the Borrower to the Trustee. Such notice is to advise the Registered Owners of the Bond Purchase Date, that the requirements of the Indenture and the Bonds relating to an Alternate Letter of Credit have been met, the name of the financial Borrower issuing the Alternate Letter of Credit, the rating, if any, on the Bonds upon the provision of the Alternate Letter of Credit and that all Bonds and

Beneficial Ownership Interests will be subject to mandatory purchase from the Registered Owners and Beneficial Owners thereof.

Bonds or Beneficial Ownership Interests shall be deemed to have been tendered whether or not the Registered Owners shall have delivered such Bonds to the Trustee and without further action by the Beneficial Owners with regard to Beneficial Ownership Interests. Subject to the right of the Registered Owners or Beneficial Owners of such Bonds or Beneficial Ownership Interests to receive the purchase price of such Bonds or Beneficial Ownership Interests and interest accrued thereon to the Bond Purchase Date (and subject to the conditions of the Indenture regarding mutilated, lost, wrongfully taken, undelivered or destroyed Bonds), such Bonds or Beneficial Ownership Interests will be null and void and the Trustee is to authenticate and deliver new Bonds in replacement thereof, or new Beneficial Ownership Interests are to be recorded on the records of the Depository, pursuant to the remarketing of such Bonds or Beneficial Ownership Interests or the pledge of such Bonds or Beneficial Ownership Interests to the Bank in lieu of remarketing such Bonds or Beneficial Ownership Interests as described below in "—Remarketing of Tendered Bonds or Beneficial Ownership Interests."

**Mandatory Tender Upon Expiration of the Letter of Credit, Failure of the Bank To Reinstate Letter of Credit or Default Under the Reimbursement Agreement**

The Bonds and Beneficial Ownership Interests are subject to mandatory tender in whole 35 days preceding the Letter of Credit Termination Date (the "Mandatory Bond Purchase Date"), at a price of 100% of the outstanding principal amount thereof plus accrued interest to such Mandatory Bond Purchase Date unless, at least 20 days prior to any such Mandatory Bond Purchase Date, the Bank shall have agreed to an extension or further extension of the Letter of Credit Termination Date to a date not earlier than one year from the Letter of Credit Termination Date being extended.

At least 15 days prior to such Mandatory Bond Purchase Date, the Trustee will use its best efforts to notify the Registered Owners or Beneficial Owners of all outstanding Bonds by telephone (to the extent their telephone numbers have been provided in writing to the Trustee), immediately confirmed by first-class mail to all Registered Owners or Beneficial Owners of the Mandatory Bond Purchase Date of the Bonds and advise the Registered Owners or Beneficial Owners that all Bonds and Beneficial Ownership Interests will be subject to mandatory tender on such Mandatory Bond Purchase Date and that such mandatory tender may not be waived.

Bonds or Beneficial Ownership Interests not tendered for purchase as required by the preceding paragraph will be deemed to have been tendered without further action by the Registered Owners or Beneficial Owners thereof, subject to the right of the Registered Owners or Beneficial Owners of such Bonds or Beneficial Ownership Interests to receive the purchase price of such Bonds or Beneficial Ownership Interests and interest accrued thereon to the Mandatory Bond Purchase Date.

Not less than 90 days prior to any Letter of Credit Termination Date, the Trustee is to provide written notice to the Borrower, the Bank and the Remarketing Agent of the Letter of Credit Termination Date.

The Bonds and Beneficial Ownership Interests are subject to mandatory tender upon receipt by the Trustee of written notice from the Bank by the tenth calendar day following an interest drawing under the Letter of Credit that the amount drawn to pay interest on the Bonds will not be reinstated (the "Mandatory Bond Purchase Date"), at a price of 100% of the outstanding principal amount thereof plus accrued interest to such Mandatory Bond Purchase Date. Upon receipt by the

Trustee of such written notice from the Bank, the Trustee will (a) immediately notify the Registered Owners or Beneficial Owners of all Outstanding Bonds by telephone (to the extent their telephone numbers have been provided in writing to the Trustee), immediately confirmed by first-class mail to all Registered Owners or Beneficial Owners, of the tender date for the Bonds; (b) advise the Registered Owners or Beneficial Owners that all Bonds and Beneficial Ownership Interests are subject to mandatory tender on such tender date; and (c) immediately send written notice of the mandatory tender of the Bonds to the Borrower, the Authority, the Paying Agent and the Remarketing Agent. The tender date must be a date not earlier than one or more than five days following the receipt of such written notice by the Trustee from the Bank.

Bonds or Beneficial Ownership Interests not tendered for purchase as required by the preceding paragraph will be deemed to have been tendered without further action by the Registered Owners or Beneficial Owners thereof, subject to the right of the Registered Owners or Beneficial Owners of such Bonds or Beneficial Ownership Interests to receive the purchase price of such Bonds or Beneficial Ownership Interests and interest accrued thereon to the Mandatory Bond Purchase Date.

The Bonds and Beneficial Ownership Interests are subject to mandatory tender for purchase in whole upon the written direction of the Bank in the event of a default under the Reimbursement Agreement. Upon receipt by the Trustee of written notice from the Bank that an event of default has taken place and is continuing under the Reimbursement Agreement and directing the mandatory tender of the Bonds and Beneficial Ownership Interests, the Trustee is directed to (a) immediately notify (within three Business Days) the Registered Owners or Beneficial Owners of all outstanding Bonds by telephone (to the extent their telephone numbers have been provided in writing to the Trustee), immediately confirmed by first-class mail to all Registered Owners or Beneficial Owners, of the tender date for the Bonds; (b) advise the Registered Owners or Beneficial Owners that all Bonds and Beneficial Ownership Interests shall be subject to mandatory tender on such tender date and that such mandatory tender may not be waived; and (c) immediately send written notice of the mandatory tender of the Bonds to the Borrower, the Authority, the Paying Agent and the Remarketing Agent. The tender date is to be a date not earlier than one or more than five days following the receipt of such written notice by the Trustee from the Bank (the "Mandatory Tender Date").

Bonds or Beneficial Ownership Interests not tendered for purchase as required by the preceding paragraph will be deemed to have been tendered without further action by the Registered Owners or Beneficial Owners thereof, subject to the right of the Registered Owners or Beneficial Owners of such Bonds or Beneficial Ownership Interests to receive the purchase price of such Bonds or Beneficial Ownership Interests and interest accrued thereon to the Mandatory Tender Date. The mandatory tender of Bonds or Beneficial Ownership Interests on the Mandatory Tender Date may not be waived by the Registered Owners or Beneficial Owners thereof.

**Tender Process for Beneficial Ownership Interests**

So long as the Bonds are held by DTC or its nominee in book-entry-only form, the Trustee is to recognize and treat DTC or its nominee as the Registered Owner of the Bonds for all purposes under the Indenture. Each Beneficial Owner is responsible for observing the rules and procedures, if any, of DTC and its Participants regarding the optional tender process or the mandatory tender waiver process with respect to Beneficial Ownership Interests.

**Matured or Redeemed Bonds**

Any Bond or Beneficial Ownership Interest or portion thereof tendered as provided above will not be purchased if such Bond or portion thereof matures or is redeemed on or prior to the applicable Bond Purchase Date.

**Remarketing of Tendered Bonds or Beneficial Ownership Interests**

Whenever Bonds or Beneficial Ownership Interests are tendered for purchase by the Registered Owners or Beneficial Owners thereof, either by optional tender or mandatory tender (other than a mandatory tender pursuant to the expiration of the Letter of Credit or any Alternate Letter of Credit) as described above, the Remarketing Agent is to use its best efforts to remarket such Bonds or Beneficial Ownership Interests. If Bonds or Beneficial Ownership Interests tendered for purchase are not remarketed by the Remarketing Agent, the Trustee is to draw on the Letter of Credit to pay the purchase price of such Bonds or Beneficial Ownership Interests, and such Bonds or Beneficial Ownership Interests, which thereupon become Bank Bonds, are to be delivered or transferred to the Bank or its designee or, at the direction of the Bank, held by the Trustee for the benefit of the Bank. Any due-bill checks delivered to the Trustee pursuant to a tender of Bonds or Beneficial Ownership Interests are to be delivered to the Registered Owner or Beneficial Owner to whom such Bonds or Beneficial Ownership Interests have been remarketed, or to the Bank or its designee if the purchase price for the Bonds or Beneficial Ownership Interests has been paid pursuant to a draw on the Letter of Credit.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

**Limited Obligations**

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

**Pledge of Revenues; Assignment**

The Authority assigns to the Trustee all of its right, title and interest in and to (a) the Revenues, including, without limitation, all Loan Payments and other amounts receivable by or on

behalf of the Authority under the Loan Agreement in respect of repayment of the Loan and all moneys and investments in the Bond Fund and the Project Fund; (b) the Loan Agreement (except for the Authority's rights to receive its fees and expenses under the Loan Agreement, to be held harmless and indemnified under the Loan Agreement, to be reimbursed for attorneys' fees and expenses under the Loan Agreement and to give or withhold consent to amendments, changes, modifications, alterations and termination of the Loan Agreement and the Authority's rights regarding limited liability, payment or reimbursement of expenses, indemnification, notices, approvals, consents requests and other communications); and (c) the Note.

The principal of and interest on the Bonds are to be paid from the proceeds of draws under the Letter of Credit. The obligation of the Borrower to reimburse the Bank for such draws is set forth in the Reimbursement Agreement. See "THE BANK AND THE INITIAL LETTER OF CREDIT" herein.

The Bonds are being offered primarily on the basis of the Letter of Credit and the financial strength of the Bank, and are not being offered on the basis of the financial strength of the Borrower or any other security. The Bonds are subject to acceleration of maturity or mandatory purchase upon the occurrence of an event of default under the Reimbursement Agreement. However, such defaults are not fully described herein. Consequently, prospective investors may not be able to fully evaluate the likelihood of a default under the Reimbursement Agreement and the resulting potential acceleration or mandatory purchase of the Bonds. See "THE BANK AND THE INITIAL LETTER OF CREDIT" herein.

Enforceability of the provisions of the Bonds, the Loan Agreement, the Letter of Credit and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium or other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion in accordance with general principles of equity.

IN THE EVENT OF A DEFAULT BY THE BANK UNDER THE LETTER OF CREDIT, NO INSURANCE PROCEEDS FROM THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY, INSTRUMENTALITY OR AUTHORITY WOULD BE AVAILABLE TO PAY THE OWNERS OF THE BONDS.

**Additional Bonds**

At the request of the Borrower, but subject to the prior written approval of the Bank, the Authority may (but shall not be required to) issue Additional Bonds on behalf of the Borrower from time to time for any purpose permitted by the Act. Any Additional Bonds are to be on a parity with the Bonds (except with respect to any moneys drawn by the Trustee on the Letter of Credit) and any Additional Bonds theretofore or thereafter issued and outstanding as to the assignment to the Trustee of the Authority's right, title and interest in the Revenues, the Loan Agreement and the Note and the Borrower's right, title and interest in any Revenues comprised of undisbursed Bond proceeds on deposit in the Project Fund to provide for payment of Bond Service Charges on the Bonds; provided, that nothing in the Indenture prevents payment of Bond Service Charges on any series of Additional Bonds from (a) being otherwise secured and protected from sources or by property or instruments not applicable to the Bonds and any one or more series of Additional Bonds; or (b) not being secured or protected from sources or by property or instruments applicable to the Bonds or one or more series of Additional Bonds.

## THE BANK AND THE INITIAL LETTER OF CREDIT

### The Initial Letter of Credit

The following description is subject in all respects to the complete terms of the initial Letter of Credit.

Concurrently with the delivery of the Bonds, the Bank will deliver to the Trustee the Initial Letter of Credit pursuant to the Letter of Credit Reimbursement Agreement (the "Reimbursement Agreement"). See "APPENDIX D—SUMMARY OF THE REIMBURSEMENT AGREEMENT" herein. The Letter of Credit irrevocably authorizes draws in accordance with its terms in an aggregate amount not exceeding $4,064,439 (as reduced and reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Available Amount") of which an amount not exceeding $64,439 may be drawn upon with respect to payment of up to 49 days of interest actually accrued on the Bonds or the portion of the Purchase Price corresponding to interest actually accrued on the Bonds (but not more than 49 days of interest computed at the maximum rate of interest of 12% on the basis of a 365/366-day year).

Subject to the provisions contained in the immediately following paragraph, each drawing under the Letter of Credit shall reduce the Available Amount by the amount of such drawing.

After a drawing for the Purchase Price of the Bonds upon an optional or mandatory tender of the Bonds, the Available Amount shall be reinstated only upon reimbursement to the Bank for amounts drawn under the Letter of Credit and receipt by the Bank of a certificate from the Trustee in the form required under the Letter of Credit. With respect to a drawing for interest payable on an Interest Payment Date as a scheduled periodic payment of interest on the Bonds, if the Trustee shall not have received, within 10 calendar days from the date of such drawing, notice from the Bank to the effect that (a) an Event of Default has occurred under the Reimbursement Agreement; and (b) the interest component of the Letter of Credit will not be reinstated, then the Available Amount will automatically be reinstated effective the eleventh calendar day from the date of such drawing in an amount equal to the amount of such drawing. The Available Amount shall not be reinstated for any drawing made with respect to a redemption.

### Renewal of Initial Letter of Credit

The Initial Letter of Credit will terminate upon the earliest of (i) 4:00 p.m., California time, on January 19, 2010, as such date may be extended by an amendment to this Letter of Credit (the "Scheduled Expiration Date"), (ii) the date on which the Bank honors a drawing which when added to all other drawings honored under the Letter of Credit and not subject to reinstatement in the aggregate equals the Available Amount, (iii) the first Business Day (as defined in the Letter of Credit) after the date of the Bank's receipt of a certificate signed by one purporting to be a duly authorized officer of the Trustee notifying the Bank that no Bonds are outstanding, (iv) the first date when the Trustee surrenders the Letter of Credit for cancellation, (v) the first Business Day after the date of the Bank's receipt of a certificate signed by one purporting to be a duly authorized officer of the Trustee notifying the Bank of the Trustee's acceptance of an Alternate Letter of Credit or (vi) the date that is 10 days following the Trustee's receipt of a notice from the Bank notifying the Trustee of the occurrence of an Event of Default under the Reimbursement Agreement and directing the Trustee to call for the mandatory tender of the Bonds or to redeem the Bonds pursuant to the terms of the Indenture.

The Borrower may request that the Bank extend the Scheduled Expiration Date of the Initial Letter of Credit, but the Bank is under no obligation to do so.

**The Bank**

Attached as Appendix A is a summary description of and certain financial information relating to the Bank.

## SUMMARY OF THE REIMBURSEMENT AGREEMENT

The Bank will agree to issue the initial Letter of Credit pursuant to the terms of the Reimbursement Agreement with the Borrower. Reference is made to the Reimbursement Agreement for complete details of the terms thereof. Attached as Appendix D—Summary of the Reimbursement Agreement is a brief outline of certain provisions of the Reimbursement Agreement which should not be considered a full statement thereof.

Any reimbursement agreement pursuant to which a substitute Credit Facility is issued may have terms substantially different from those of the Reimbursement Agreement. The rights and obligations of the parties to the Reimbursement Agreement and any document that secures performance of the Reimbursement Agreement do not extend to the Trustee or to the Bondholders.

**Alternate Letter of Credit**

The Indenture provides that any time prior to the expiration of the Letter of Credit, the Borrower may provide for delivery to the Trustee of an Alternate Letter of Credit. The Indenture contains provisions with respect to the acceptability of the Alternate Letter of Credit.

## THE PROJECT

The proceeds of the Bonds loaned to the Borrower will be used by the Borrower to finance the cost of, or reimburse the Borrower for the cost of (1) constructing permanent school and foundation facilities, located at 1500 South El Camino Real, Encinitas, California 92024, consisting of classrooms, science labs, tutoring rooms, main office, athletic facilities, meeting and similar school rooms and related facilities, (2) equipping and furnishing various classrooms and related school facilities, (3) funding the cost of any insurance premium, letter of credit fees or other credit enhancement costs with respect to the financing, (4) paying capitalized interest with respect to the financing, (5) funding a reserve fund, if necessary, with respect to the financing and (6) paying certain costs of issuance in connection with the financing (collectively, the "Project").

## ESTIMATED SOURCES AND USES OF FUNDS

| | |
|---|---|
| Sources of Funds | |
| Principal amount of the Bonds | $4,000,000.00 |
| Total Estimated Sources of Funds | $4,000,000.00 |
| Uses of Funds | |
| Deposit to the Project Fund | $3,920,000.00 |
| Costs of Issuance, including Underwriters' Discount | 80,000.00 |
| Total Estimated Uses of Funds | $4,000,000.00 |

## BONDHOLDERS' CONSIDERATIONS

### General

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below:

The Borrower is dependent on student tuition, gifts and donations from students' parents and other individuals and entities. Changes in the regional economy could have a major impact on the Borrower's financial stability.

### Other Risk Factors Affecting the Borrower

In the future, the following additional factors, among others, may adversely affect the operations of the Borrower to an extent that cannot be determined at this time:

(a) The Borrower currently has no union affiliations. In the event, however, unionization is successful to any degree, there may be a risk of employee strikes and other adverse labor actions and conditions which could result in reduced enrollment and increased costs.

(b) Developments affecting the federal or state tax-exempt status of nonprofit organizations or the reduction or elimination of the real estate tax exemption available to charitable organizations. Both Congress and the Internal Revenue Service recently have increased scrutiny of the activities of tax-exempt entities.

(c) Future revenues and expenses of the Borrower will be affected by events and conditions relating generally to, among other things, demand for the Borrower's services, the ability of the Borrower to provide the required services, management capabilities, economic developments in the Borrower's industry, the Borrower's ability to control expenses, competition, costs, legislation, governmental regulation, the availability of government grants and developments affecting the federal or state tax-exempt status of nonprofit organizations. Unanticipated events and circumstances may occur which cause variations from the Borrower's expectations.

### Limited Obligations

The Bonds and the interest thereon are limited obligations of the Authority payable solely and only from the Revenues and other amounts pledged therefor pursuant to the Loan Agreement. 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. The Authority shall not be obligated to pay the principal of the Bonds, or the interest thereon, except from the funds provided under the Loan Agreement and the Indenture and 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 the interest on the Bonds. The Bonds are not a debt of the State of California, and the State is not liable for payment thereof. The Authority has no taxing power.

**Payment of Debt Service**

The Bonds are limited obligations of the Authority and are payable by the Authority solely from payments to be made by the Borrower pursuant to the Loan Agreement and from certain funds held by the Trustee under the Indenture, including funds drawn under the Letter of Credit. No representation or assurance can be given that the Borrower will realize revenues in amounts sufficient to make such payments to the Bank under the Reimbursement Agreement to repay such draws. The realization of future revenues is dependent upon, among other things, the demand for the Borrower's services, management capabilities, economic developments in the Borrower's service area, the Borrower's ability to control expenses, competition, costs, legislation, governmental regulation and developments affecting the federal or state tax-exempt status of nonprofit organizations and future changes in other conditions that are unpredictable. Unanticipated events and circumstances may occur which cause variations from the Borrower's expectations.

**Financial Status of the Borrower and the Project**

The financial success of the Borrower and/or the Project may affect the risk of an acceleration of the Bonds prior to maturity.

If the Borrower were to file a petition for relief under the Federal Bankruptcy Code, such filing would constitute an "Event of Default" under the Reimbursement Agreement permitting, under the terms set forth in the Indenture, the acceleration of the Bonds.

**The Letter of Credit; Default by the Bank**

The Bank will issue the Letter of Credit which will authorize the Trustee to draw on the Bank, in accordance with the terms and conditions set forth in the Letter of Credit, by drafts, periodically in an amount equal to the principal of the Bonds when due, whether at stated maturity or upon redemption or acceleration of the Bonds, the purchase price of Bonds tendered for purchase pursuant to the Indenture and up to 49 days' accrued interest on the Bonds during the Weekly Mode. The Letter of Credit is the Registered Owners' primary expected source of payment of principal or Purchase Price and interest on the Bonds. The Bank's obligation under the Letter of Credit will be a general obligation of the Bank, which will not be guaranteed or secured, in whole or in part, by the United States of America or any agency or instrumentality thereof. Default by the Bank under the Letter of Credit may result in insufficient revenues being available to pay the principal or Purchase Price of and accrued and unpaid interest on the Bonds. See THE BANK AND THE INITIAL LETTER OF CREDIT herein for certain information with respect to the Bank.

**Bonds Not Secured by Real or Personal Property**

The Bonds are not secured by a mortgage lien or security interest in any real or personal property of the Borrower or any other party.

**Tax Exempt Status of the Borrower**

***Tax-Exempt Status of Interest on the Bonds***. 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 Authority file an information report with the Internal Revenue

Service ("IRS"). The Authority and the Borrower have covenanted in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Borrower to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, possibly from the original date of issuance.

***Tax-Exempt Status of the Borrower***. The tax-exempt status of the Bonds presently depends upon the Borrower's maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities.

Currently, the primary penalty available to the IRS under the Code is the revocation of tax-exempt status. Loss of tax-exempt status by the Borrower could potentially result in loss of tax exemption of the Bonds and of other tax-exempt debt of the Borrower, if any, and defaults in covenants regarding the Bonds and other related tax-exempt debt, if any, would likely be triggered. Loss of tax-exempt status could also result in substantial tax liabilities on income of the Borrower. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

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

***State Income Tax Exemption and Local Property Tax Exemption.*** The State of California has not been as active as the IRS in scrutinizing income tax exemption. However, it is likely that the loss by the Borrower of federal tax exemption would also trigger a challenge to its state tax exemption. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county, and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt entities with respect to their real property tax exemptions. All of the real property of the Borrower is presently exempt from real property taxation. Although the real property tax exemption of the Borrower is not, to the knowledge of management of the Borrower, under challenge by such authorities, an investigation or audit could lead to a challenge that could ultimately affect the real property tax exemption of the Borrower.

***Unrelated Business Taxable Income***. In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt entities with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Borrower does not believe that any of its activities generate UBTI. If the Borrower participates in UBTI generating activities in the future, it will comply with federal and state guidelines for the proper reporting of such income.

***No Redemption Upon Loss of Tax Exemption***. As described under "—Tax Matters" herein, noncompliance with certain requirements of the Code could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Bonds are not required to be redeemed and are not subject to mandatory acceleration, and the interest rates on the Bonds will not be changed, in the event interest thereon is determined to be includable in gross income for federal income tax purposes. No provision has been made to compensate Registered Owners for federal income taxes, interest and/or penalties which may be assessed in connection with any such tax liability or such determination or for any other loss or any diminution of gain which may occur.

**Enforceability of Remedies**

The remedies available to the Trustee, the Bank, the Authority and the Registered Owners upon an Event of Default under the Indenture, the Loan Agreement or the Reimbursement Agreement are in many respects dependent upon judicial actions which are, in turn, often subject to discretion and delay. Under existing constitutional and statutory laws and judicial decisions, including specifically Title 11 of the United States Code (the "Federal Bankruptcy Code"), a particular remedy specified by the Indenture, the Loan Agreement or the Reimbursement Agreement may not be readily available or, if available, may be limited or subject to substantial delay. The various legal opinions to be delivered concurrently with the issuance and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity and by bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the rights of creditors generally.

The Indenture provides that the Borrower shall make payments to the Trustee sufficient to pay the Bonds and the interest thereon as the same becomes due. The obligation of the Borrower to make such payments is not secured by a mortgage lien or security interest in any real or personal property of the Borrower or any other party.

**Early Redemption or Mandatory Tenders**

Pursuant to the terms of the Indenture, the Bonds are subject to redemption or mandatory tender for purchase prior to maturity at any time at the option of the Borrower (see "THE BONDS" herein).

THE BONDS ARE BEING OFFERED SOLELY ON THE BASIS OF THE FINANCIAL STRENGTH OF THE BANK AND NOT ON THE FINANCIAL STRENGTH OF THE BORROWER OR ANY OTHER SECURITY NOTWITHSTANDING THE INFORMATION RELATING TO THE BORROWER INCLUDED HEREIN. THE REGISTERED OWNERS OF THE BONDS WILL NOT BE ABLE TO ASSESS THE LIKELIHOOD THAT PAYMENT OF THE BONDS WILL BE ACCELERATED BEFORE THE STATED MATURITY THEREOF BECAUSE OF AN EVENT OF DEFAULT UNDER THE REIMBURSEMENT AGREEMENT, UPON WHICH ACCELERATION THE BONDS WOULD CEASE TO ACCRUE INTEREST AND WOULD BE PAYABLE AT PAR PLUS ACCRUED INTEREST. SEE THE BANK AND THE INITIAL LETTER OF CREDIT HEREIN.

**Factors That Could Affect the Enforceability of the Loan Agreement**

The legal right and practical ability of the Trustee to enforce its rights and remedies against the Borrower under the Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

**Bankruptcy**

In the event of bankruptcy of the Borrower, the rights and remedies of the Registered Owners of the Bonds are subject to various provisions of the Federal Bankruptcy Code. If the Borrower were

to file a petition in bankruptcy, payments made by the Borrower during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Borrower's liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period may also be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Borrower and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Borrower, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Borrower despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interest and other liens could be delayed during the pendency of the rehabilitation proceeding.

In the event of bankruptcy of the Borrower, there is no assurance that certain covenants, including tax covenants, contained in the Indenture and certain other documents would survive. Accordingly, a bankruptcy trustee could take action which would adversely affect the exclusion of interest on the Bonds from gross income of the Registered Owners for federal income tax purposes.

## ABSENCE OF MATERIAL LITIGATION

### The Authority

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

### The Borrower

There is no controversy or litigation of any nature now pending against the Borrower, or to the knowledge of its officers, threatened against the Borrower, restraining or enjoining the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Borrower taken concerning the issuance, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Borrower related to the issuance or delivery of the Bonds, or which, if successful, would materially and adversely affect the operations or financial condition of the Borrower. The Borrower believes that there is no litigation pending or threatened against the Borrower which, in the event of an adverse result, would affect the ability of the Borrower to meet its obligations with respect to the Bonds under the Loan Agreement.

## TAX MATTERS

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance with covenants designed to satisfy the requirements of the Code that must be met

subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes.

Notwithstanding Bond Counsel's opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial borrowers, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

## APPROVAL OF VALIDITY

Legal matters incident to the issuance of the Bonds are subject to the unqualified approving opinion of Kutak Rock LLP, Pasadena, California, Bond Counsel. Certain other legal matters will be passed upon for the Borrower by its counsel, Dostart Clapp Gordon & Coveney, LLP, San Diego, California, for the Bank by its special counsel, Buchalter Nemer, Los Angeles, California and for the Authority by its special counsel, Nixon Peabody LLP, San Francisco, California.

## UNDERWRITING

The Authority has agreed to sell, and the Underwriter has agreed to purchase, the Bonds at a price equal to the aggregate principal amount thereof, less an Underwriter's discount in the amount of $25,000. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter does not have the right to purchase less than all the Bonds. The Underwriter intends to offer the Bonds to the public initially at the offering price set forth on the cover page hereof, and may subsequently change such offering price and other selling terms from time to time without prior notice. The Bonds may be offered by the Underwriter and sold to certain dealers (including dealers depositing such Bonds into investment trusts, accounts or funds) and others at prices lower than the

public offering price set forth on the cover page hereof. The right of the Underwriter to receive compensation in connection with this offering is dependent upon the issuance and delivery of the Bonds. The Underwriter also has been designated as the initial Remarketing Agent for the Bonds.

## RATING

Moody's Investors Service ("Moody's") has assigned a rating of "A1/VMIG1" to the Bonds based upon the Bank and the Letter of Credit.

No application has been made to any other rating agency in order to obtain an additional rating on the Bonds. Any further explanation as to the significance of the above rating may be obtained only from the rating agency at the following address: Moody's Investors Service, 99 Church Street, New York, New York 10007. Generally, the rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions by the rating agency.

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

## CONTINUING DISCLOSURE

The Authority and Borrower have determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell Bonds and the Authority will not provide any such information. The Borrower has undertaken all responsibilities for any continuing disclosure to Bondowners as described below, and the Authority will have no liability to the Holders of the Bonds or any other person with respect to Rule 15c-12 (the "Rule") under the Securities Exchange Act of 1934, as amended. Absent an exemption under the Rule promulgated by the Securities and Exchange Commission, the Borrower is required to provide for the benefit of Bondowners certain financial information and operating data relating to the Borrower following the end of each of the Borrower's fiscal years (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if deemed by the Borrower to be material. The Annual Report must be filed on behalf of the Borrower with each Nationally Recognized Municipal Securities Information Repository ("NRMSIRs") and with the appropriate State Repository if such repository is established. Under the Rule, notices of material events (as required by the Rule), as well as updates of certain information would be filed on behalf of the Borrower with either the NRMSIRs or the Municipal Securities Rulemaking Board.

The Borrower is not required to provide the specified information until the earlier of (a) the Fixed Rate Conversion Date; or (b) the date on which there is any primary offering of any Bond by a broker, dealer or municipal securities dealer including any remarketing of any Bond that is accompanied by a change in a denomination of $100,000 or more to less than $100,000. In the Agreement, the Borrower has agreed to assist any Participating Underwriter as such term is used in the Rule in complying with the Rule when and as applicable.

A failure by the Borrower to comply with the provisions of the Agreement relating to securities law compliance, including the Rule, will not constitute an Event of Default under the Agreement (although Bondowners or beneficial owners of Bonds will have any available remedy at law or in equity). Under the Rule, a failure of the Borrower to comply with the disclosure requirements must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of Bonds in the

secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds.

## MISCELLANEOUS

Other than with respect to information concerning the Authority contained under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority," as it relates to the Authority, none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to (a) the accuracy or completeness of such information, (b) the validity of the Bonds, or (c) the tax status of the interest on the Bonds. References herein to the Act, the Agreement, the Bonds, the Letter of Credit and the Reimbursement Agreement do not purport to be complete, and reference is made to the Act, the Agreement, the Bonds, the Letter of Credit and the Reimbursement Agreement for full and complete statements of such provisions. The agreements of the Authority with the holders of the Bonds are fully set forth in the Agreement, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the principal corporate trust office of the Trustee and, during the underwriting period, at the principal office of the Underwriter.

Information relating to DTC and the book-entry system described herein under the heading "THE DEPOSITORY TRUST COMPANY—Book-Entry-Only System" has been furnished by DTC and is believed to be reliable, but none of the Authority, the Borrower or the Underwriter makes any representations or warranties whatsoever with respect to any such information.

Appendix A contains certain information relating to the Bank. While the information contained therein is believed to be reliable, the Authority, the Borrower and the Underwriter make no representations or warranties whatsoever with respect to such information.

Appendix B—"Definitions of Certain Terms" has been prepared by Kutak Rock LLP, Bond Counsel. The proposed form of legal opinion contained in Appendix C has been prepared by Kutak Rock LLP, Bond Counsel.

The Appendices are incorporated herein as an integral part of this Official Statement.

The Authority neither has nor assumes any responsibility as to the accuracy or completeness of the information contained in this Official Statement, other than that appearing under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority," (but only insofar as it relates to the Authority).

This Official Statement has been executed by an authorized representative of the Authority and approved by the Borrower. This Official Statement is not to be considered as a contract or agreement between the Authority, the Borrower and the purchasers or owners of any of the Bonds.

ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS

By /s/ Joseph K. Chan
Joseph K. Chan, Chief Financial Officer

Approved:

THE GRAUER FOUNDATION FOR EDUCATION

By /s/ Stuart R. Grauer
Stuart R. Grauer, President

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# APPENDIX A

## CERTAIN INFORMATION REGARDING THE BANK

### General

The principal offices of Comerica Bank (the "Bank") are located at Comerica Tower at Detroit Center, 500 Woodward Avenue, Detroit, Michigan 48226. Its telephone number is (313) 222-4000.

At June 30, 2005, the Bank had approximately 363 branch offices within the States of Michigan, California, Texas and Florida, total assets of approximately $55 billion, total deposits of approximately $44 billion, and for the twelve months ended December 31, 2004, net income of $757 million. At December 31, 2004, the Bank was the largest commercial bank headquartered in Michigan. THE LETTER OF CREDIT IS AN OBLIGATION OF THE BANK AND WILL NOT BE AN OBLIGATION OF COMERICA INCORPORATED (THE "CORPORATION").

### Comerica Bank

The Bank was incorporated on July 21, 1871 and is a wholly –owned subsidiary of the Corporation, which is a bank holding company incorporated under the laws of the State of Delaware, headquartered in Detroit, Michigan, and registered under the Bank Holding Company Act of 1956, as amended. As of June 30, 2005, the Corporation owned directly or indirectly all the outstanding stock of 3 banking and 50 non-banking subsidiaries. At June 30, 2005, the Corporation had total assets of approximately $55 billion and common shareholders' equity of approximately $5.1 billion. At June 30, 2005, the Corporation was the largest bank holding corporation headquartered in Michigan in terms of both total assets and total deposits.

The Corporation has strategically aligned its operations into three major lines of business, the Finance Division is also reported as a segment. The Business Bank is comprised of middle market, commercial real estate, national dealer services, global finance, large corporate, leasing, financial services group and technology and life sciences lending. This line of business meets the needs of medium-size businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services. Small Business and Personal Financial Services includes small business banking (annual sales under $10 million) and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. This line of business offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit and residential mortgage loans. In addition, a full range of financial services is provided to small businesses and municipalities. Wealth and Institutional Management is responsible for private banking, personal and institutional trust, retirement plans, and asset management (including Munder Capital Management, Investment adviser to the Munder funds, and Wilson Kemp & Associates). This division also includes Comerica Securities, which offers institutional, retail and discount brokerage, and investment banking services, as well as Comerica Insurance, which is a full line insurance agency. The Finance segment includes the Corporation's securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation's funding, liquidity and capital needs, performing interest sensitivity gap and earning simulation analysis and executing various strategies to manage the Corporation's exposure to liquidity, interest rate risk and foreign exchange risk.

**Additional Information**

The Bank submits quarterly to the Federal Deposit Insurance Corporation (the "FDIC") on behalf of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") certain reports regarding its financial condition and results of operations (each, a "Call Report" and collectively, the "Call Reports") entitled "Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices". Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of the end of the period to which such Call Report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by the Call Reports, such regulatory instructions do not in all cases follow generally accepted accounting principles or the opinions and statements of the Accounting Principles Board of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about the Bank, the Call Reports nevertheless provide important information concerning the financial condition of the Bank. The publicly available portions of the Call Reports with respect to the Bank are on file with, and publicly available at, the FDIC, 250 E. Street, S.W., Washington, D.C. 20219. All such Call Reports may be obtained by calling the FDIC at (800) 945-2186. The FDIC also maintains a web site (http://www.fdic.gov) that contains reports and certain other information regarding depository institutions, such as the Bank, which file reports with the FDIC.

The Corporation is subject to informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the United States Securities and Exchange Commission (the "SEC"). All such reports and other information may be inspected and copied at the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such reports may be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates, and electronically from the web site maintained by the SEC located at http://www.sec.gov. In addition, such material can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which exchange securities of the Corporation are listed. Such information may also be obtained from the Corporation's web site located at http://www.comerica.com.

**Selected Financial Information**

**COMERICA BANK**
**AS A PERCENTAGE OF**
**COMERICA INCORPORATED**

| | June 30, | December 31, | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Assets | 98.0% | 99.5% | 99.5% |
| Deposits | 100.0% | 100.0% | 98.5% |
| Total loans | 100.0% | 100.0% | 100.0% |
| Net income | 112.0% | 98.0% | 105.1% |

# APPENDIX B

## DEFINITIONS OF CERTAIN TERMS

"*Act*" means Chapter 5 of Division 7 of Title 1 of the California Government Code (commencing with Section 6500), as amended.

"*Additional Bonds*" means Bonds, in addition to the Series 2006 Bonds, which may be issued under Section 2.09 of the Indenture.

"*Additional Notes*" means any promissory note or notes, in addition to the Series 2006 Note, delivered by the Corporation to the Authority and assigned to the Trustee in connection with the issuance of Additional Bonds, as provided in the Loan Agreement.

"*Alternate Letter of Credit*" means an irrevocable letter of credit authorizing drawings thereunder by the Trustee issued by a bank, a trust company or other financial institution and meeting the requirements of Section 5.09 of the Indenture, which Alternate Letter of Credit shall be the same in all material respects (except as to expiration date) as the Letter of Credit.

"*Authenticating Agent*" means the Trustee and the Registrar for the Bonds and any bank, trust company or other Person designated as an Authenticating Agent for the Bonds by or in accordance with Section 6.13 of the Indenture, each of which shall be a transfer agent registered in accordance with Section 17(A) of the Securities Exchange Act of 1934, as amended.

"*Authority*" means the ABAG Finance Authority For Nonprofit Corporations, a joint powers authority established pursuant to the Act, or its successors and assigns.

"*Authorized Corporation Representative*" means the person or persons designated at the time to act on behalf of the Corporation by written instrument furnished to the Authority and the Trustee, containing the specimen signature of such person or persons and signed by any officer of the Corporation. Such instrument may designate an alternate or alternates.

"*Authorized Authority Representative*" means the Chairman of the Authority, the Secretary of the Authority, any member of the Authority or any other person designated as an Authorized Authority Representative by a written instrument of the Authority signed by its Chairman, Secretary or any member of the Authority and filed with the Corporation and the Trustee.

"*Bank Bonds*" means Series 2006 Bonds or Beneficial Ownership Interests registered or recorded in the name of the Letter of Credit Bank or its designee and securing obligations of the Corporation under the Reimbursement Agreement as provided in Section 6.20 of the Indenture.

"*Beneficial Owner*" means, with respect to the Series 2006 Bonds, a Person owning a Beneficial Ownership Interest therein, as evidenced to the satisfaction of the Trustee.

"*Beneficial Ownership Interest*" means the beneficial right to receive payments and notices with respect to the Series 2006 Bonds which are held by the Depository under a Book-Entry System.

"*Bond Counsel*" means an attorney-at-law or firm of attorneys (other than an employee of the Corporation or any law firm serving as counsel to the Corporation) satisfactory to the Authority and

nationally recognized as experienced in matters relating to the tax exemption of interest on bonds of states and political subdivisions.

"*Bond Fund*" means the Bond Fund created in Section 5.03 of the Indenture.

"*Bond Purchase Agreement*" means, as to the Series 2006 Bonds, the Bond Purchase Agreement, dated January 18, 2006, by and among the Authority, the Underwriter and the Corporation and any similar agreement with respect to Additional Bonds.

"*Bond Purchase Date*" means any Bond Purchase Date as defined and provided for in Section 2.04, 2.05 or 2.06 of the Indenture.

"*Bond Resolution*" means (a) when used with reference to the Series 2006 Bonds, the resolution of the Governing Body providing for their issuance and approving the Loan Agreement, the Indenture, the Tax Regulatory Agreement and the Bond Purchase Agreement and related matters; and (b) when used with reference to an issue of Additional Bonds, the resolution of the Governing Body providing for the issuance of the Additional Bonds and approving any amendment or supplement to the Loan Agreement, any Supplemental Indenture and related matters.

"*Bond Service Charges*" means, for any series of Bonds, the principal of, premium, if any, and interest on such Bonds for any period or payable at any time, whether due on an Interest Payment Date, at maturity or upon acceleration or redemption.

"*Bonds*" means, collectively, the Series 2006 Bonds and any Additional Bonds.

"*Book-Entry Form*" or "*Book-Entry System*" means, with respect to the Series 2006 Bonds, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book-entry-only system; and (b) physical Series 2006 Bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Registered Owner, with the physical Series 2006 Bond certificates "immobilized" in the custody of the Depository.

"*Business Day*" means a day of the year other than (a) a Saturday or Sunday; (b) a day on which commercial banks located in the city or cities in which the principal corporate trust office of the Trustee, the principal corporate trust operations office of the Trustee, the principal office of the Remarketing Agent, or the principal office of the Letter of Credit Bank are located are required or authorized to remain closed; or (c) a day on which the New York Stock Exchange is closed.

"*Closing Date*" means, with respect to the Series 2006 Bonds, the date of delivery of and payment for the Series 2006 Bonds, being January 19, 2006.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder (and under the related provisions of the Internal Revenue Code of 1954, as amended) and any successor provisions to those Sections, regulations or proposed regulations.

"*Corporation*" means The Grauer Foundation for Education, a California nonprofit corporation duly qualified to do business in the State and an entity described in Section 501(c)(3) of the Code, and its successors and assigns.

"*Depository*" means any securities depository that is a clearing agency or corporation under federal and state law operating and maintaining, with its participants or otherwise, a Book-Entry

System to record ownership of book entry interests in bonds, and to effect transfers of book entry interests in bonds in Book-Entry Form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

"*Direct Participant*" means a Participant as defined in the Letter of Representations.

"*Disclosure Requirements*" shall have the meaning ascribed to such term in Section 10.03 of the Indenture.

"*Eligible Funds*" means moneys which are (a) continuously on deposit with the Trustee in trust for the benefit of the Registered Owners in a separate and segregated account in which only Eligible Funds are held and (b) proceeds of (i) the Bonds received contemporaneously with the issuance and sale of the Bonds, (ii) a drawing under the Letter of Credit or payments otherwise made under an Alternate Letter of Credit, (iii) any other moneys for which the Trustee has received a written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to the Trustee to the effect that payment of such moneys to the Registered Owners would not constitute an avoidable preference under Section 547 of the United States Bankruptcy Code in the event the Authority or the Corporation were to become a debtor under the United States Bankruptcy Code (which opinion is acceptable to each Rating Service then rating the Bonds) or, (iv) the investment of funds qualifying as Eligible Funds under the foregoing clauses.

"*Eligible Investments*" shall mean any of the following investments, so long as such investments at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States of America. These include, but are not limited to:

(i) United States Treasury obligations
All direct or fully guaranteed obligations;

(ii) Farmers Home Administration
Certificates of beneficial ownership;

(iii) General Services Administration
Participation certificates;

(iv) U.S. Maritime Administration
Guaranteed Title XI financing;

(v) Small Business Administration
Guaranteed participation certificates
Guaranteed pool certificates;

(vi) Government National Mortgage Association ("GNMA")
GNMA-guaranteed mortgage-backed securities
GNMA-guaranteed participation certificates;

(vii) United States Department of Housing & Urban Development Local authority bonds;

(viii) Washington Metropolitan Area Transit Authority Guaranteed transit bonds;

(ix) State and Local Government Series;

(x) Veterans Administration Guaranteed REMIC Pass-through Certificates;

(b) Federal Housing Administration Debentures;

(c) commercial paper rated "A-1+" by the Rating Service maturing in not more than 365 days;

(d) investment in money market funds rated "AAAm" or "AAAm-G" by the Rating Service, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

(e) repurchase agreements with any transferor with debt rated at least "A" or commercial paper rated "A-1+" by the Rating Service; provided, however, that if the debt of any transferor is subsequently rated below "A," the transferor may post collateral sufficient to sustain or maintain an "A" debt rating by the Rating Service;

(f) stripped securities, including:

(i) United States Treasury STRIPS;

(ii) REFCORP STRIPS (stripped by the Federal Reserve Bank of New York);

(iii) Financing Corp. ("FICO") Strips (stripped by Federal Reserve Bank of New York which have CUSIP prefixes 317705, 31771J and 31771K); and

(iv) Any stripped securities assessed or rated "AAA" by the Rating Service;

(g) a Qualified GIC; and

(h) any other obligations approved in writing in advance by the Letter of Credit Bank.

Notwithstanding the foregoing, any Eligible Investment must be limited to those instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change. If the obligation is rated, it should not have an "r" highlighter affixed to its rating. Interest should be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with that index.

"*Event of Default*" means an Event of Default hereunder as described in Section 7.01 of the Indenture.

"*Extraordinary Services*" and "*Extraordinary Expenses*" means all services rendered and all reasonable expenses properly incurred by the Trustee under the Indenture, other than Ordinary Services and Ordinary Expenses.

"*Facilities*" means the Corporation's educational and related facilities, including the Project.

"*First Optional Redemption Date*" means the January 1 occurring in the year which is a number of years after the Fixed Interest Rate Commencement Date equal to the number of full years between the Fixed Interest Rate Commencement Date and the maturity date of the Series 2006 Bonds, multiplied by 1/2 and rounded up to the nearest whole number.

"*Five-Year Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period commencing on the applicable Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is five years from the Interest Rate Adjustment Date, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed or the Remarketing Agent has failed to determine the Five-Year Interest Rate for whatever reason, or the Five-Year Interest Rate cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the Five-Year Interest Rate exceed the Maximum Rate.

"*Fixed Interest Rate*" means the fixed rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Period Reset Date, to be the lowest interest rate, for the period from the Interest Period Reset Date to the final maturity date of the Series 2006 Bonds, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Period Reset Date; provided that in no event shall the Fixed Interest Rate exceed the Maximum Rate.

"*Fixed Interest Rate Commencement Date*" means the Interest Period Reset Date from and after which the Series 2006 Bonds shall bear interest at the Fixed Interest Rate, as that date shall be established as provided in Section 2.03 of the Indenture.

"*Governing Body*" means the governing body of the Authority.

"*Government Obligations*" means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; (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, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any

securities described in clause (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America or Federal Reserve Bank); and (c) securities which represent an interest in the obligations described in clause (a) and (b) above.

"*Indirect Participant*" means a Person utilizing the Book-Entry System of the Depository by, directly or indirectly, clearing through or maintaining a custodial relationship with a Direct Participant.

"*Indenture*" means the Indenture of Trust, as amended or supplemented from time to time.

"*Interest Payment Date*" means, (a) as to the Series 2006 Bonds, (i) while the Series 2006 Bonds bear interest at the Six-Month Interest Rate, the One-Year Interest Rate, the Five-Year Interest Rate or the Fixed Interest Rate, the first day of each March and September, (ii) while the Series 2006 Bonds bear interest at the Weekly Interest Rate, the first Business Day of each month, commencing the first Business Day of February, 2006; and (iii) while the Series 2006 Bonds bear interest at the One-Month Interest Rate or the Three-Month Interest Rate, the first Business Day of each January, April, July and October; and (b) as to Additional Bonds, each date or dates designated as an Interest Payment Date or Dates in the applicable Supplemental Indenture or Bond Resolution.

"*Interest Period Reset Date*" means the date on which the interest rate on the Series 2006 Bonds converts from the Interest Rate Mode applicable to the Series 2006 Bonds prior to such date to a new Interest Rate Mode. An Interest Period Reset Date shall be the first Business Day of a month; provided that upon conversion from a Six-Month, One-Year or Five-Year Interest Rate Mode, an Interest Period Reset Date shall be the first day of a month; and provided further, that except when converting from a Weekly Interest Rate Mode, an Interest Period Reset Date may not occur prior to the end of the preceding Interest Rate Period and shall be the first day or Business Day after the end of such preceding Interest Rate Period.

"*Interest Rate Adjustment Date*" means any date on which the interest rate on the Series 2006 Bonds may be adjusted, either as the result of the conversion of the interest rate on the Series 2006 Bonds to a different Interest Rate Mode, or by adjustment of the interest rate on the Series 2006 Bonds within the applicable Interest Rate Mode. Except as otherwise provided with respect to an Interest Rate Adjustment Date which is also an Interest Period Reset Date, an Interest Rate Adjustment Date shall be the first day of the first month of the Interest Rate Period if the Series 2006 Bonds bear interest at the Six-Month, One-Year or Five-Year Interest Rates; the first Business Day of a month if the Series 2006 Bonds bear interest at the One-Month or Three-Month Interest Rates; and if the Series 2006 Bonds bear interest at the Weekly Interest Rate, then the Interest Rate Adjustment Date shall be Thursday of each week.

"*Interest Rate Determination Date*" means (a) with respect to the Three-Month Interest Rate, the Six-Month Interest Rate, the One-Year Interest Rate, the Five-Year Interest Rate and the Fixed Interest Rate, the tenth Business Day preceding an Interest Rate Adjustment Date; (b) with respect to the One-Month Interest Rate, the seventh Business Day preceding an Interest Rate Adjustment Date; and (c) with respect to the Weekly Interest Rate, not later than 2:00 p.m., California time, at the principal corporate trust office of the Trustee on Wednesday of each week, or the next preceding Business Day if such Wednesday is not a Business Day; provided that upon any conversion to the Weekly Interest Rate from a different Interest Rate Mode, the first Interest Rate Determination Date shall mean not later than 2:00 p.m., California time, at the principal corporate trust office of the Trustee on the Business Day preceding the Interest Period Reset Date.

"*Interest Rate for Advances*" means a rate per annum as set forth in the Reimbursement Agreement.

"*Interest Rate Mode*" means any of those modes of interest with respect to the Series 2006 Bonds permitted by the Indenture, specifically, the Weekly Interest Rate, the One-Month Interest Rate, the Three-Month Interest Rate, the Six-Month Interest Rate, the One-Year Interest Rate, the Five-Year Interest Rate and the Fixed Interest Rate.

"*Interest Rate Period*" means that period of time for which the interest rate with respect to the Series 2006 Bonds has been determined by the Remarketing Agent or otherwise as provided in the definition of the applicable Interest Rate Mode, commencing on the applicable Interest Rate Adjustment Date, and terminating on the day immediately preceding the following Interest Rate Adjustment Date.

"*Letter of Credit*" means (a) the irrevocable letter of credit to be issued by the Letter of Credit Bank and delivered to the Trustee on the Closing Date and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (i) the principal amount of the Series 2006 Bonds Outstanding to enable the Trustee to pay (A) the principal amount of the Series 2006 Bonds when due at maturity or upon redemption or acceleration; and (B) an amount equal to the principal portion of the purchase price of any Series 2006 Bonds or Beneficial Ownership Interests tendered for purchase by the Registered Owners or Beneficial Owners thereof; plus (ii) the amount of interest due on the Series 2006 Bonds but not less than 49 days' accrued interest (or 128 days' interest if the Series 2006 Bonds bear interest at the One-Month Interest Rate or the Three-Month Interest Rate or 208 days' interest if the Series 2006 Bonds bear interest at the Six-Month Interest Rate, the One-Year Interest Rate, the Five-Year Interest Rate or the Fixed Interest Rate or such number of days' interest as may be required by the Rating Service) at the Maximum Rate to enable the Trustee to pay (A) interest on the Series 2006 Bonds when due; and (B) an amount equal to the interest portion, if any, of the purchase price of any Series 2006 Bonds or Beneficial Ownership Interests tendered for purchase by the Registered Owners or Beneficial Owners thereof; as the same may be transferred, reissued, extended, amended to change the interest coverage period as contemplated in Section 2.03 of the Indenture, or replaced in accordance with the Indenture, the Reimbursement Agreement and the Letter of Credit; and (b) upon the issuance and effectiveness thereof, any Alternate Letter of Credit.

"*Letter of Credit Bank*" means Comerica Bank, a banking corporation organized and existing pursuant to the laws of the State of Michigan, and its successors and assigns. Upon issuance and effectiveness of any Alternate Letter of Credit, Letter of Credit Bank shall mean the issuer thereof and its successors and assigns.

"*Letter of Credit Termination Date*" means the stated expiration date of the Letter of Credit (initially January 19, 2010) as may be extended from time to time pursuant to its terms, or of any Alternate Letter of Credit.

"*Letter of Representations*" means, collectively, the Blanket Issuer Letter of Representations filed by the Authority with the Depository and the Operational Arrangements Letter of Representations filed by the Trustee with the Depository.

"*Loan*" means the loan by the Authority to the Corporation of the proceeds received from the sale of the Bonds.

"*Loan Agreement*" means the Loan Agreement, dated as of even date with the Indenture, by and between the Authority and the Corporation, as amended or supplemented from time to time.

"*Loan Payments*" means the amounts required to be paid by the Corporation in repayment of the Loan pursuant to the provisions of the Notes and Article IV of the Loan Agreement.

"*Mandatory Bond Purchase Date*" means a Mandatory Bond Purchase Date as defined in Section 2.07 of the Indenture.

"*Mandatory Tender Date"* has the meaning ascribed to such term in Section 2.07(c) of the Indenture.

"*Maximum Rate*" means 12% per annum.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

"*Notes*" means, collectively, the Series 2006 Note and any Additional Notes.

"*One-Month Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period commencing on the applicable Interest Rate Adjustment Date to and including the day preceding the first Business Day of the next month, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the One-Month Interest Rate for whatever reason, or the One-Month Interest Rate cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the One-Month Interest Rate exceed the Maximum Rate.

"*One-Year Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period commencing on the applicable Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is one year from the Interest Rate Adjustment Date, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the One-Year Interest Rate for whatever reason, or the One-Year Interest Rate cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the One-Year Interest Rate exceed the Maximum Rate.

"*Ordinary Services*" and "*Ordinary Expenses*" means those standard and customary services normally rendered, and those reasonable expenses normally incurred, by a trustee under instruments similar to the Indenture.

"*Outstanding*" means, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Indenture, except:

(a) bonds canceled upon surrender, exchange or transfer, or canceled because of payment or redemption on or prior to that date;

(b) bonds, or the portion thereof, the payment, redemption or purchase for cancellation of which sufficient money has been deposited and credited with the Trustee or any Paying Agent pursuant to the Indenture on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Registered Owners of that notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and

(d) bonds in lieu of which others have been authenticated under Section 3.07 of the Indenture;

provided that, in determining whether the Registered Owners of the requisite percentage of Bonds have concurred in any demand, direction, request, notice, consent, waiver or other action under the Indenture, Bonds (other than Bank Bonds) that are owned by the Corporation or any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation shall be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only such Bonds which the Trustee knows are so owned shall be disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for such purpose, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

"*Participating Underwriter"* means any broker, dealer or municipal securities dealer acting as an underwriter in a primary offering of municipal securities subject to Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

"*Paying Agent*" means any bank or trust company designated as a Paying Agent by or in accordance with Section 6.12 of the Indenture.

"*Person*" or words importing persons means firms, associations, corporations, partnerships (including without limitation, general and limited partnerships), limited liability companies, joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"*Predecessor Bond*" of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by the particular Bond. For the purposes of this definition, any Bond authenticated and delivered under Section 3.07 of the Indenture in lieu of a lost, stolen or destroyed Bond shall, except as otherwise provided in Section 3.07 of the Indenture, be deemed to evidence the same debt as the lost, stolen or destroyed Bond.

"*Prime Rate*" means a variable per annum rate of interest equal at all times to the rate of interest established and quoted by the Letter of Credit Bank as its "Prime Rate," such rate to change contemporaneously with each change in such established and quoted rate, provided that it is understood that the Prime Rate shall not necessarily be representative of the rate of interest actually charged by the Letter of Credit Bank on any loan or class of loans.

"*Project Fund*" means the Project Fund created pursuant to Section 5.01 of the Indenture.

"*Qualified GIC*" means an investment contract providing for the investment of funds held by the Trustee and insuring a minimum or fixed rate of return on investments of such funds, which contract shall:

(a) be an uncollateralized obligation of any registered broker/dealer subject to Securities Investors' Protection Corporation jurisdiction, any commercial bank or any other financial institution (including but not limited to insurance companies and their subsidiaries), if the ratings on the senior long-term debt obligations of such provider (or, in the case of an insurance company, its claims paying ratings) meet the Qualified GIC Rating Requirement, or if the senior long-term debt obligations of such provider (or, in the case of an insurance company, its claims paying ability) is unconditionally guaranteed by a parent corporation meeting the Qualified GIC Rating Requirement that would otherwise be required for the underlying entity; provided that, by the terms of the contract:

(i) if the provider's rating or the rating of any parent corporation satisfying the requirements in (a) above or the rating on the Qualified GIC falls below "A1" by Moody's or "A+" by S&P (a "Downgrade"), the provider must, within ten days of receipt of written notice from the Trustee, repay all funds previously invested under such contract without penalty, together with accrued interest thereon at the interest provided under such contract to (but excluding) the date of delivery of such funds to the Trustee unless, within such time period, the provider either (x) assigns such contract to another provider that is reasonably satisfactory to the Corporation and that meets the Qualified GIC Rating Requirement; (y) provides evidence satisfactory to the Corporation that the rating on the Qualified GIC has not fallen below "A1" by Moody's or "A+" by S&P; or (z) collateralizes the investment contract with cash and/or Government Obligations such that in the case of (z):

(A) cash and/or Government Obligations are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and (i) such third party is a Federal Reserve Bank or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million, and (ii) the Trustee shall have received written confirmation from such third party that it holds such cash and/or Government Obligations free and clear of any lien, as Agent; and

(B) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq., or 31 C.F.R. 350.0, et seq., in such cash and/or Government Obligations is created for the benefit of the Trustee; and

(C) the Trustee or the Agent will value the Government Obligations no less frequently than weekly and will liquidate the Government Obligations if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and

(D) the fair market value of the Government Obligations in relation to the amount of the investment contract, including principal and interest, is equal to at least 103%, and if the value of such Government Obligations held as collateral slips below such level, then additional Government Obligations must be transferred to the Trustee or the Agent; and

(ii) if the provider's rating or the rating of any parent corporation satisfying the requirements in (a) above or the rating on the Qualified GIC falls below "Baa1" by Moody's or "BBB+" by S&P (a "Second Downgrade"), within ten days of receipt of written direction by the Trustee (but not later than 90 days after a Second Downgrade), the provider must repay all funds previously invested under such contract without penalty, together with accrued interest thereon at the interest provided under such contract to (but excluding) the date of delivery of such funds to the Trustee;

(b) provide that the Trustee may exercise all of the rights under such contract without the necessity of the taking of action by any other person;

(c) provide that interest shall be payable not less than semiannually;

(d) provide that the Trustee may withdraw funds invested without penalty at any time and from time to time to be applied for the purposes described therein;

(e) be accompanied by an enforceability opinion from counsel to the obligor under such contract in form and substance satisfactory to the Letter of Credit Bank;

(f) provide that the Trustee's interest thereunder shall be transferable to any successor Trustee hereunder; and

(g) comply with the provisions of the Code.

"*Qualified GIC Rating Requirement*" means at least "Aa3" or better by Moody's and at least "AA-" or better by S&P.

"*Rating Service*" means Moody's Investors Service, or any other rating service then rating the Series 2006 Bonds, and their successors and assigns.

"*Rebate Fund*" means the Rebate Fund created pursuant to Section 5.11 of the Indenture.

"*Register*" means the books kept and maintained by the Registrar for registration and transfer of Bonds pursuant to Section 3.06 of the Indenture.

"*Registered Owner*" means the Person in whose name a Bond is registered on the Register.

"*Registrar*" means the Trustee until a successor Registrar shall have become such pursuant to applicable provisions of the Indenture.

"*Regular Record Date*" means, with respect to any Bond, the fifth Business Day next preceding an Interest Payment Date applicable to that Bond.

"*Reimbursement Agreement*" means the Reimbursement Agreement, dated as of January 1, 2006, between the Letter of Credit Bank and the Corporation, as amended and supplemented from time to time. Upon the issuance of any Alternate Letter of Credit, "Reimbursement Agreement" shall mean the reimbursement or similar agreement relating to such Alternate Letter of Credit, entered into by and between the Corporation and the issuer of such Alternate Letter of Credit.

"*Remarketing Agent*" means, initially, Comerica Securities, Inc., and any Person meeting the qualifications of Section 6.18 of the Indenture and designated from time to time to act as Remarketing Agent under Section 6.17 of the Indenture.

"*Remarketing Reimbursement Fund*" means the Remarketing Reimbursement Fund created in Section 5.04 of the Indenture.

"*Repurchased Bank Bonds*" means those Series 2006 Bonds described in Section 4.07(c) of the Indenture.

"*Revenues*" means (a) the Loan Payments; (b) all of the moneys received or to be received by the Authority or the Trustee in respect of repayment of the Loan; (c) all moneys and investments in the Bond Fund, including without limitation moneys received by the Trustee under or pursuant to the Letter of Credit; (d) any moneys and investments in the Project Fund; and (e) all income and profit from the investment of the foregoing moneys.

"*Series 2006 Bonds*" means the bonds designated as the "ABAG Finance Authority For Nonprofit Corporations Variable Rate Demand Revenue Bonds (The Grauer Foundation for Education Project), Series 2006" authorized in the Indenture in the original aggregate principal amount of $4,000,000.

"*Series 2006 Note*" means the promissory note of the Corporation, dated the Closing Date initially issued, in the form attached to the Loan Agreement as Exhibit A thereto and in the principal amount of $4,000,000 evidencing the obligation of the Corporation to make Loan Payments.

"*Six-Month Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period commencing on the applicable Interest Rate Adjustment Date and ending on June 30 or December 31, as applicable, nearest to but not later than the date which is six months from the Interest Rate Adjustment Date, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the Six-Month Interest Rate for whatever reason, or the Six-Month Interest Rate

cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the Six-Month Interest Rate exceed the Maximum Rate.

"*Special Record Date*" means, with respect to any Bond, the date established by the Trustee in connection with the payment of overdue interest on that Bond pursuant to Section 3.05 of the Indenture.

"*S&P*" means Standard & Poor's, A division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved, liquidated or replaced by the Authority and the Corporation as the rating agency for the Series 2006 Bonds, or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Remarketing Agent, with the approval of the Authority and the Corporation, which is requested to provide a rating on the Series 2006 Bonds.

"*State*" means the State of California.

"*Supplemental Credit Facility*" means a credit facility, agreement or arrangement in addition to or in substitution of the Letter of Credit, including, without limitation, a bond insurance policy, collateral arrangement, surety bond, standby placement agreement or similar arrangement the purpose of which is to enhance the credit of the Series 2006 Bonds in order to obtain or maintain a rating on the Series 2006 Bonds.

"*Supplemental Indenture*" means any indenture supplemental to the Indenture entered into by and between the Authority and the Trustee in accordance with Article VIII of the Indenture.

"*Tax Regulatory Agreement*" means the Tax Regulatory Agreement, dated as of January 1, 2006, between the Authority and the Corporation, as amended from time to time.

"*Three-Month Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent, on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period commencing on the applicable Interest Rate Adjustment Date to and including the day preceding the first Business Day of the March, June, September or December nearest to but not later than the date which is three months from the Interest Rate Adjustment Date, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the Three-Month Interest Rate for whatever reason, or the Three-Month Interest Rate cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the Three-Month Interest Rate exceed the Maximum Rate.

"*Trustee*" means the Trustee at the time acting as such under the Indenture, originally Wells Fargo Bank, National Association, as Trustee, and any successor Trustee as determined or designated under or pursuant to the Indenture.

"*Unassigned Authority's Rights*" means the Unassigned Authority's Rights as defined in the Loan Agreement.

"*Underwriter*" means (a) with respect to the Series 2006 Bonds, Comerica Securities, Inc.; and (b) with respect to any Additional Bonds, the underwriter of such Additional Bonds.

"*Variable Rate*" means any interest rate to be borne by the Series 2006 Bonds other than the Fixed Interest Rate.

"*Weekly Interest Rate*" means (a) the rate of interest per annum determined by the Remarketing Agent on the Interest Rate Determination Date immediately preceding the applicable Interest Rate Adjustment Date, to be the lowest interest rate, for the Interest Rate Period of one week (or less in the case of any such Interest Rate Period commencing on an Interest Period Reset Date which is not a Thursday or ending on the day preceding an Interest Period Reset Date) commencing on the applicable Interest Rate Adjustment Date, in the judgment of the Remarketing Agent (taking into consideration current transactions and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) at which, as of such Interest Rate Determination Date, the Series 2006 Bonds could be remarketed at par, plus accrued interest, if any, on the Interest Rate Adjustment Date for that Interest Rate Period; or (b) in the event that the Remarketing Agent has been removed or has resigned and no successor has been appointed, or the Remarketing Agent has failed to determine the Weekly Interest Rate for whatever reason, or the Weekly Interest Rate cannot be determined pursuant to clause (a) for whatever reason, the interest rate then in effect with respect to the Series 2006 Bonds, without adjustment; provided that in no event shall the Weekly Interest Rate exceed the Maximum Rate.

# APPENDIX C

## FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

ABAG Finance Authority
For Nonprofit Corporations
101 Eighth Street, Suite 100
Oakland, California 94607

ABAG Finance Authority For Nonprofit Corporations
Variable Rate Demand Revenue Bonds
(The Grauer Foundation for Education Project)
Series 2006

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the ABAG Finance Authority For Nonprofit Corporations (the "Authority") of $4,000,000 aggregate principal amount of its Variable Rate Demand Revenue Bonds (The Grauer Foundation for Education Project) Series 2006 (the "Bonds"), issued pursuant to the provisions of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500) (the "Act"), an Indenture of Trust, dated as of September 1, 2002 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and a resolution adopted by the Executive Committee of the Authority on January 11, 2006 (the "Resolution"). The Bonds are issued for the purpose of making a loan of the proceeds thereof to The Grauer Foundation for Education, a California nonprofit corporation (the "Borrower") pursuant to a Loan Agreement, dated as of January 1, 2006 (the "Loan Agreement"), between the Authority and the Borrower. Terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Resolution, an opinion of counsel to the Borrower with respect to the Borrower and the Loan Agreement, the Tax Regulatory Agreement, certificates of the Authority, the Trustee, the Borrower and others, and such other documents and matters to the extent deemed necessary by us to render the opinions set forth herein. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents, and of the legal conclusions contained in the opinions referred to above, and 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.

The interest rate determination method and certain other requirements, agreements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Regulatory Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken 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 on or after any such change that occurs or action that is taken upon the advice or approval of bond counsel other than ourselves.

We have relied upon the opinion, dated this date, of counsel to the Borrower, with respect to the due organization and good standing of the Borrower as a California nonprofit corporation (the "State") and with respect to the status of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). We are not passing upon title to or the description of the facilities or properties of the Borrower or the nature and extent of any liens thereon.

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. Our engagement with respect to the Bonds has concluded with their issuance and we disclaim any obligation to update this letter. We have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Regulatory Agreement, 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 Regulatory Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. We also express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we have undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion relating 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 special, limited obligations of the Authority.

2. The Indenture has been duly and legally authorized, 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, 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 and as more particularly described in the Indenture).

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

4. The Bonds are special, limited obligations of the Authority and are not a lien or charge upon the funds or property of the Authority or any member of the Authority except to the extent of the aforementioned pledge and assignment. The Bonds are not a debt or liability of the State, any political subdivision of the State or any member of the Authority. Neither the Authority nor any member of the Authority shall under any circumstances be obligated to pay the Bonds except from the revenues and other funds pledged therefor under the Indenture. None of the State, any political subdivision of the State or any member of the Authority shall be obligated to pay the principal of, premium, if any, purchase price of, or interest on, the Bonds or other costs incident thereto except from the revenues and funds pledged therefor. Neither the faith and credit nor the taxing power of the State, any political subdivision of the

State or any member of the Authority is pledged to the payment of the principal of, premium, if any, purchase price of, or interest on, the Bonds. None of the State, any political subdivision of the State or any member of the Authority is required to levy or pledge any form of taxation whatever or to make any appropriation for the payment of the Bonds.

5. (a) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from current State personal income taxes.

(b) 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, although we observe that interest on the Bonds is not a specific preference item for purposes of calculating the federal individual or corporate alternative minimum taxable income. Interest on the Bonds, however, will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculations of alternative minimum taxable income 75% of the excess of such corporation's adjusted net book income over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

Very truly yours,

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# APPENDIX D

## SUMMARY OF THE REIMBURSEMENT AGREEMENT

At the time of the delivery of the Letter of Credit, the Borrower and the Bank will enter into a Reimbursement Agreement (the "Reimbursement Agreement"). Pursuant to the Reimbursement Agreement, the Borrower will agree to pay the Bank for any draft drawn on the Letter of Credit and paid by the Bank, plus interest thereon at the rate specified in the Reimbursement Agreement, plus certain fees and expenses of the Bank.

The Reimbursement Agreement includes certain covenants of and restrictions on the Borrower which are typically found in loan agreements between a bank and a borrower which remain in effect at least as long as the Bank remains obligated to honor a draft submitted under the Letter of Credit. Such covenants include, without limitation, the Borrower's agreement to provide financial statements and other information to the Bank, the Borrower's agreement to keep books of record and account for itself in accordance with generally acceptable accounting practices, the Borrower's agreement to continue to engage in its current operations and maintain its corporate existence, the Borrower's agreement to comply with applicable laws and agreements to maintain insurance and pay taxes, along with other covenants of the Borrower. Such covenants and restrictions are solely for the benefit of the Bank and may be waived or amended by the Bank and the Borrower without the consent of the Trustee, the Issuer or the Holders of Bonds. The Holders of Bonds will have no rights or obligations as a result of any such covenants or any amendments thereto or waivers thereof.

The Reimbursement Agreement requires the Borrower to exercise its right to cause the Issuer to optionally redeem Bonds in accordance with a schedule set forth in the Reimbursement Agreement.

The Reimbursement Agreement, including the provisions relating to optional redemption of the Bonds, may be amended from time to time by the Borrower and the Bank without the consent of the Issuer, the Trustee or the Bondowners.

Defined events of default under the Reimbursement Agreement are as follows:

(i) Borrower shall fail to pay any amount payable under the Reimbursement Agreement or under any Loan Document (as defined in the Reimbursement Agreement) when due; or

(ii) Any representation or warranty made by Borrower in the Reimbursement Agreement, by Borrower (or any of its officers) or any Guarantor (as defined in the Reimbursement Agreement) in connection with the Reimbursement Agreement or any Loan Document shall prove to have been incorrect in any material respect when made; or

(iii) Borrower shall fail to perform or observe any terms, covenants or agreements contained in Article V of the Reimbursement Agreement; or

(iv) Borrower or any Guarantor shall fail to perform or observe any other term, covenant or agreement contained in the Reimbursement Agreement or any Loan Document (other than those terms, covenants and agreements described in clauses (i), (ii) and (iii) of Section 6.01(a) of the Reimbursement Agreement) and any such failure shall remain unremedied for thirty (30) days after written notice thereof shall have been given to Borrower by Bank; or

(v) Any material provision of the Reimbursement Agreement or any Loan Agreement (as defined in the Reimbursement Agreement) shall at any time for any reason cease to be in

full force and effect or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by Borrower or any Guarantor or any government agency or authority, or Borrower shall deny that it has any or further liability or obligation under the Reimbursement Agreement; or

(vi) Borrower or any Guarantor shall (A) fail to pay when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any payment of any Debt (as defined in the Reimbursement Agreement) (other than the Obligations (as defined in the Reimbursement Agreement)) and such failure shall continue after the applicable grace period, if any, specified in such agreements or instruments relating to such Debt, or (B) fail to perform or observe any other term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any Debt when required to be performed or observed, and such failure shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to perform or observe is to accelerate, or to permit the acceleration of, the maturity of such Debt; or

(vii) Borrower or any Guarantor shall (A) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, (B) admit in writing its inability to pay its debts generally as they become due, (C) make a general assignment for the benefit of creditors, (D) be adjudicated a bankrupt or insolvent, or (E) commence a voluntary case under the federal bankruptcy laws of the United States of America (or similar laws of any other country or jurisdiction) 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 it in any bankruptcy, reorganization or insolvency proceeding; or corporate action shall be taken by it for the purpose of effecting any of the foregoing; or if without the application, approval or consent of Borrower or any Guarantor, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of Borrower or any Guarantor an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of Borrower or any Guarantor or of all or any substantial part of the assets of Borrower or any Guarantor, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by Borrower or any Guarantor, in good faith, the same shall (1) result in the entry of an order for relief of any such adjudication or appointment or (2) continue undismissed, or pending and unstayed, for any period of thirty (30) consecutive days; or

(viii) Any judgment or order for the payment of money in an individual amount equal to or exceeding $100,000 excluding legal fees (or any judgments or orders for the payment of money in aggregate amounts equal to or exceeding $100,000 excluding legal fees) in excess of amounts covered by applicable insurance coverage shall be rendered against Borrower or any Guarantor;

(ix) Borrower shall mortgage or pledge the Real Property Collateral (as defined in the Reimbursement Agreement) for any other Debt or obligations, or shall convey, assign or transfer the Real Property Collateral by deed, installment sale contract or other instrument; or title to the Real Property Collateral shall become vested in any other Person (as defined in the Reimbursement Agreement) in any manner whatsoever; or

(x) Any default, breach or event of default shall occur under any Loan Document; or

(xi) Any Event of Default shall occur under the Loan Agreement; or

(xii) (A) Borrower or any of its ERISA Affiliates (as defined in the Reimbursement Agreement) fails to make full payment when due of all amounts which, under the provisions of any Pension Plan (as defined in the Reimbursement Agreement) or Section 412 of the Internal Revenue Code, Borrower or any of its ERISA Affiliates is required to pay as contributions thereto;

(B) Any accumulated funding deficiency occurs or exists, whether or not waived, with respect to any Pension Plan;

(C) The excess of the actuarial present value of all benefit liabilities under all Pension Plans over the fair market value of the assets of such Pension Plans (excluding in such computation Pension Plans with assets greater than benefit liabilities) allocable to such benefit liabilities is greater than $500,000;

(D) Borrower or any of its ERISA Affiliates enters into any transaction which has as its principal purpose the evasion of liability under Subtitle D of Title IV of ERISA;

(E) (a) Any Pension Plan maintained by Borrower or any of its ERISA Affiliates shall be terminated other than a standard termination within the meaning of Title IV of ERISA; or (b) a trustee shall be appointed by an appropriate United States district court to administer any Pension Plan, or (c) the PBGC (or any successor thereto) shall institute proceedings to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; or (d) Borrower or any of its ERISA Affiliates shall withdraw (under Section 4063 of ERISA) from a Pension Plan, if as of the date thereof or any subsequent date, either Borrower or its ERISA Affiliates has any liability (such liabilities to include, without limitation, any liability to the PBGC, or any successor thereto, or to any other party under Sections 4062, 4063 or 4064 of ERISA or any other provision of law) resulting from or otherwise associated with such events listed in subclauses (a)-(d) above;

(F) As used in this clause (xii) the term "accumulated funding deficiency" has the meaning specified in Section 412 of the Internal Revenue Code, and the terms "actuarial present value" and "benefit liabilities" have the meaning specified in Section 4001 of ERISA; or

(xiii) Borrower or any of its ERISA Affiliates as employer under a Multiemployer Plan (as defined in the Reimbursement Agreement) shall have made a complete or partial withdrawal from such Multiemployer Plan and the plan sponsor of such Multiemployer Plan shall have notified such withdrawing employer that such employer has incurred a withdrawal liability; or

(xiv) Any Guaranty for any reason, other than satisfaction in full of all Obligations and termination of the Reimbursement Agreement, ceases to be in full force and effect or is declared to be null and void, or any event occurs which with the passage of time would result in the termination of any Guaranty or which would create a material risk that any Guaranty might cease to be in full force and effect or might be declared to be null and void, or any Guarantor denies that it has any further liability under its Guaranty or gives notice to such effect or to the effect that it will terminate its Guaranty, or violates any provision of its Guaranty, or any Guarantor dies; or

(xv) Any Change of Control (as defined in the Reimbursement Agreement) shall occur.

Upon the occurrence and during the continuance of any Event of Default, the Bank may, in its sole discretion, upon notice to the Trustee and the Borrower, do any one or more of the following:

(a) If an Event of Default described under Section 6.0l(vii) of the Reimbursement Agreement occurs, any and all Obligations then owing or which would become owing upon a drawing of the full amount available under the Letter of Credit shall automatically become due and payable and the Commitment of Bank (as defined in the Reimbursement Agreement) to issue the Letter of Credit (or any execution or replacement thereof) shall be automatically terminated, and if any Event of Default shall have occurred and be continuing (including under Section 6.01(vii) of the Reimbursement Agreement with respect to clauses (ii) and (iv) below), Bank may, in its sole discretion, but shall not be obligated to, (i) by notice to Borrower, declare the Commitment of Bank to issue the Letter of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare any and all Obligations then owing and which would become owing upon a drawing of the full amount available under the Letter of Credit to be forthwith due and payable, (iii) exercise any or all of its rights with respect to any or all of the collateral provided to secure the Obligations, or (iv) exercise any other rights and remedies available to it hereunder and/or the other Loan Documents, and at law and in equity, in each case without any presentment, demand, protest or other formality of any kind.

(b) In addition, if any Event of Default has occurred and is continuing, Bank shall have the right to direct the Trustee to call for the mandatory tender of the Bonds or to direct the Trustee to redeem the Bonds pursuant to the terms of the Indenture.

(c) The rights and remedies of Bank herein and in the Loan Documents are cumulative, and are not exclusive of any other rights, powers, privileges, or remedies, now or hereafter existing, at law, in equity or otherwise.