AUGUST 2012

SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

Interest Rate Swaps[1]

The following is a description of the characteristics of interest rate swaps, as well as a description of certain financial risks that are known to us and reasonably foreseeable at this time and that you should consider before deciding whether to enter into an interest rate swap[2] in connection with your Bonds. If you decide that you would like to pursue this financing alternative, [[the underwriter] [the swap dealer (Swap Dealer)] or your municipal advisor and qualified independent representative, as applicable] will provide you with additional information describing the material terms of your particular interest rate swap.[3] If you have any questions or concerns about these disclosures, please make those questions or concerns known immediately to us. **There may be accounting, legal and other risks associated with a swap and you should consult with your financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate concerning such risks.**

[Insert following the October 14, 2012 CFTC Business Conduct Standards compliance date: **Under the CFTC Business Conduct Standards, the Swap Dealer is required to have a reasonable basis to believe that you have a "qualified independent representative" in connection with your swap. See Other Considerations -- Compliance With Dodd-Frank herein.**]

Characteristics of Interest Rate Swaps; Rights and Obligations of Swap Parties

Financial Characteristics. An interest rate swap is a two-party agreement by and between you and a Swap Dealer to exchange payments based on periodic changes in interest rates or indices on the dates and for the term specified in the swap agreement. Interest rate swaps typically involve an exchange of payments calculated based upon fixed and floating rates or upon two different floating rates. In the municipal market, the floating rates commonly used are the SIFMA Index (SIFMA) and the London Interbank Offered Rate (LIBOR).[4] Swap payments are calculated based on a "Notional Amount" specified in the swap agreement; the Notional Amount is not, however, exchanged by the parties.

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[1] Under MSRB Rule G-17, an interest rate swap entered into in connection with an offering will generally be treated as a complex municipal securities financing.

[2] These disclosures can also be delivered, as applicable, in connection with material amendments of existing swaps.

[3] The Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities (effective August 2, 2012) provides that the Underwriter may satisfy its swap disclosure obligation if the required disclosure has been provided to an issuer by the Swap Dealer or the issuer's independent swap or other financial advisor, as long as the Underwriter has a reasonable basis for belief in the truthfulness and completeness of such disclosure.

[4] "*SIFMA Index*" is the Municipal Swap Index compiled from weekly interest rate resets of tax-exempt variable rate issues reported to Municipal Market Data that meet specific criteria established from time to time by SIFMA. The SIFMA Index is generally determined on Wednesday of each week and published and effective for the one-week period beginning on Thursday.

"*LIBOR*" is the London-Interbank Offered Rate, which is an interest rate for a specified period for US Dollar investments that is managed by the British Bankers Association. LIBOR is determined each day at 11am (London time) and is the average rate (with some adjustments) derived from the quotations provided by certain reference banks that are determined by the British Bankers' Association. In most cases, swap documents refer to an alternate mechanism for establishing the index in the event that the SIFMA Index or LIBOR, as applicable, is not calculated.

Payment obligations on your swap will generally be netted so that only one party makes a payment on each payment date.

Nature of the Swap Obligation. The execution of a swap typically will not affect the nature of your obligation or legal liability to your Bondholders. Upon the execution of a swap, you continue to be legally obligated to your Bondholders to make debt service payments. From an economic perspective, the swap enables you to effectively convert your rate payment obligation, for example, from floating to fixed or from fixed to floating, but your bond and swap obligations are separate and distinct.

Master Agreements. Your swap will be executed under the terms of a Master Agreement, using the documents published by the International Swaps and Derivatives Association, Inc. (ISDA). Multiple swap transactions may be documented under one Master Agreement by the execution, from time to time, of separate confirmations executed by the parties. Swaps are typically aggregated and, if applicable, netted under one Master Agreement, with the effect that parties that have executed multiple swaps may treat them as one single agreement. This is consistent with the treatment of swaps, generally, under principles of U.S. bankruptcy law.

Swap Termination. A swap may be terminated by you or the Swap Dealer prior to its scheduled termination date upon the occurrence, as to the other party, of one or more of the following Events of Default: Failure to Pay or Deliver, Breach of Agreement, Credit Support Default, Misrepresentation, Default Under Specified Transactions, Cross Default, Bankruptcy, and Merger Without Assumption and one or more of the following Termination Events: Illegality, Credit Event Upon Merger and any other event specified in the swap documents, typically including certain ratings downgrades. Consistent with the aggregation of swaps under a Master Agreement, the occurrence of an Event of Default or of certain Termination Events in respect of a party to a Master Agreement may have the effect of terminating all of the swaps under such Master Agreement.

Termination Payments. Upon a swap termination, a payment may be owed by either party depending upon market conditions at the time of termination, regardless, generally, of which party is the defaulting party or the party affected by a Termination Event. The amount that would be payable by one party to the other if a swap were terminated on any particular day is typically referred to as the "Termination Payment" for the swap. A Termination Payment typically reflects the then-current mark-to-market value of a swap upon its termination in light of then-prevailing market conditions. For example, if you agree to pay a fixed rate on a swap and, following swap execution, fixed rates in the relevant market decline, it would be expected that the mark-to-market of the swap would be "against" you (*i.e.*, you would owe a Termination Payment if the swap were terminated because your obligation under the swap is to pay a fixed rate at a time when market rates are lower).

Mark-to-Market Amounts. A calculation of the mark-to-market value of a swap that would be payable if the swap were terminated may be used for various purposes. Among other things, it reflects, on any given date, the amount of any unrealized loss or gain on the swap for purposes of your financial statements; it may be used for purposes of establishing compliance with financial covenants and other terms of your indenture and other credit agreements; and it may be used to calculate the amount of collateral you are required to deliver to secure your payment obligations under the swap.

Tax Considerations. Consideration should be given as to whether a swap should be "integrated" with the Bonds for purposes of yield calculation on the Bonds for U.S. Federal tax purposes. You should consult with your Bond Counsel regarding the tax implications of entering into the swap.

Material Economic and Operational Terms of Interest Rate Swaps

OPTION 1: Fixed Payer Swap

In a fixed payer swap, an issuer makes payments based on a fixed rate determined at the pricing of the swap and receives payments based on a floating rate index such as SIFMA or LIBOR. An issuer typically enters into a fixed payer swap to hedge against the interest rate volatility of variable rate debt. The floating rate payments made by the Swap Dealer are intended to offset an issuer's variable rate debt exposure, so that, as a result of the variable rate debt taken together with the swap, an issuer makes payments based on a net fixed rate.

[Describe material economic and operational terms of the fixed payer swap.]

<u>OPTION 2</u>: Fixed Receiver Swap

In a fixed receiver swap, an issuer makes payments based on a floating rate index such as SIFMA or LIBOR and receives payments based on a fixed rate determined at the pricing of the swap. An issuer typically enters into a fixed receiver swap in connection with fixed rate debt. As a result of the fixed rate debt taken together with the swap, the issuer makes payments based on a net floating rate.

[Describe material economic and operational terms of the fixed receiver swap.]

<u>OPTION 3</u>: Basis Swap

In a basis swap, an issuer makes payments based on one floating rate index such as SIFMA or LIBOR and receives payments based on a different floating rate index.

[Describe material economic and operational terms of the basis swap.]

<u>OPTION 4</u>: Interest Rate Cap

In an interest rate cap, one party agrees to pay the other an amount determined by the degree, if any, that a floating rate exceeds a predetermined fixed rate, called the strike rate. Interest rate caps are typically purchased by an issuer in connection with variable rate debt to economically provide a maximum rate payable on variable rate debt without actually subjecting the terms of the debt to a maximum rate.

[Describe material economic and operational terms of the interest rate cap.]

<u>OPTION 5</u>: [Other Swaps]

[Insert description of swap: Rate Lock, Swaption, Interest Rate Floor, Yield Curve Swap, Security-Based Swap, etc.]

[Describe material economic and operational terms of the swap.]

<u>Risk Considerations of Interest Rate Swaps</u>

<u>Credit/Counterparty Risk</u>. Counterparty risk is the risk that the Swap Dealer (or its Credit Support Provider or Guarantor) will not fulfill its obligations as specified by the terms of the swap. An issuer that elects not to clear its swap is exposed to the credit and counterparty risk of the Swap Dealer. If an Event of Default or Termination Event occurs as to the Swap Dealer, including, without limitation, as a result of the Swap Dealer's bankruptcy or significant ratings downgrade, you will generally have the right to terminate the swap, but the amount of any payment you receive, if any termination payments are owed to you, would be subject to the Swap Dealer's ability to make the required payment. Upon the bankruptcy or other insolvency of a Swap Dealer, among other things, your obligation to make payments to your insolvent counterparty, the timing of swap terminations and the valuation of a swap upon its termination as well as your right to the return of any excess collateral you may have posted, may be determined, or affected, by principles of relevant bankruptcy or other insolvency law. You may not receive amounts from the Swap Dealer to which you would otherwise be entitled, including but not limited to ongoing

payments under the swap, termination payments and the return of any excess collateral. You should consult with your counsel regarding these and other considerations, and your rights, in the event of the Swap Dealer's bankruptcy or other applicable insolvency proceeding.

Termination Risk. Termination risk is the risk that the swap (or multiple swaps under a Master Agreement) could be terminated prior to its (or their) scheduled termination date(s) as a result of any of several events relating to either you or the Swap Dealer, including your payment default on a swap or the Bonds or a downgrade of your ratings and other events specified by the terms of the swap and the Master Agreement. Upon an early termination, a substantial Termination Payment could be due and payable; you may either owe a Termination Payment to the Swap Dealer or receive a Termination Payment from the Swap Dealer depending on then-prevailing market rates in the relevant market for a swap with the same term and structure. You may be able to fund a Termination Payment from the proceeds of your borrowings. However, your contractual obligation to make a Termination Payment is unconditional and is not subject to your ability to incur debt or access the public markets.

Interest Rate Risk. Interest rate risk is the risk that rates will increase or decrease, and such fluctuations will affect the swap's cash flow, mark-to-market value and upon an early termination, the required Termination Payment. On a fixed payer swap, you also forgo the opportunity to take advantage of lower rates if rates decrease.

Basis Risk. Basis risk arises from the mismatch between the rate you receive under the swap and the rate you pay on the Bonds. For example, basis risk describes the risk in a fixed payer swap that the floating rate you receive under the swap may not equal the floating rate you pay on the variable rate bonds that you are hedging. The two rates may not fluctuate the same way or to the same extent. Basis risk will also be impacted by the ratings of any credit enhancer or liquidity provider on the variable-rate bonds, a failed remarketing, as well as general market conditions.

Tax Risk.[5] Tax risk is a specific basis risk stemming from the mismatch between, for example, the percentage of LIBOR or other rate you receive on a swap and the interest rate you pay on your tax-exempt variable rate bonds, as a result of the occurrence of tax events affecting your bonds or tax-exempt bonds generally, including changes in marginal income tax rates and other changes in the Federal and state tax systems. For example, a reduction in marginal Federal income tax rates, a reduction of the Federal tax rate on interest income, a change in the treatment of municipal bond interest or a change in the structure of the Federal tax system may cause variable tax-exempt interest rates and the SIFMA Index to rise relative to taxable interest rates or LIBOR, increasing basis risk, as the amounts you receive under the swap may be less than the amounts you then owe on the Bonds.

Liquidity Risk. Liquidity risk is the risk that it may be difficult to terminate a swap or to assess the market value of a swap under certain market conditions. The Swap Dealer may, but is not obligated (unless specifically agreed to under the swap documentation), to unwind or terminate the swap at market at your request. Generally, you may not assign, amend or novate the swap without the prior written consent of the Swap Dealer. There can be no assurance, and the Swap Dealer does not guarantee, that another swap dealer will be willing to accept the rights and obligations under your swap or that the Swap Dealer would consent to such a transfer.

Collateral Risk.[6] Under certain circumstances, you may be required to deliver collateral to secure your payment obligations under the swap. Your obligation to post collateral on a swap will be calculated, from time to time, on the basis of the mark-to-market value of the swap (and on other swaps under the Master Agreement) and may be substantial. Since you deliver collateral [directly to the Swap Dealer] [to a third

[5] Include when there is a mismatch between the interest rate payable on the Bonds and the rate payable on the swap.
[6] Include when an issuer agrees to deliver collateral to secure its obligations under the swap.

party custodian], the return of your collateral is subject to the [credit and bankruptcy risks of the Swap Dealer] [and the credit and operational risks of the third-party custodian.][7] [If a third-party custodian were to default in its obligations to return collateral in connection with the swap, you could suffer losses, and such losses could be substantial.] You should consult with your counsel regarding your rights with respect to collateral.

Operational Risk. Operational risk is the risk of loss arising from failures of systems and controls for recording, monitoring and quantifying the risks and contractual obligations associated with swaps, for valuing transactions and transferring funds or for detecting human error or system failures. Monitoring and management of a swap or your swap portfolio may require the dedication of resources and personnel on an ongoing basis.

Amortization Risk. Amortization risk is the risk of a mismatch between the principal amount of the Bonds and the Notional Amount of the related swap.

Other Considerations

[*Delete the following sentence if the Issuer is not issuing VRDOs*.] [If you are contemplating entering into a swap in connection with your VRDOs, you should consider the financial risk considerations discussed in the SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 related to Variable Rate Demand Obligations.] [*Delete the following sentence if the Issuer is not issuing Fixed Rate Bonds*.] [If you are contemplating entering into a swap in connection with your Fixed Rate Bonds, you should consider the financial risk considerations discussed in the SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 related to Fixed Rate Bonds.] [*Delete the following sentence if the Issuer is not issuing FRNs*.] [If you are contemplating entering into a swap in connection with your FRNs, you should consider the financial risk considerations discussed in the SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 related to Floating Rate Notes.] Certain other considerations may also arise in connection with your execution of a swap, including some or all of the following:

Pricing of Swaps. Price and other terms of swaps are individually negotiated between you and the Swap Dealer. The Swap Dealer does not represent or warrant to you that the prices at which the Swap Dealer may offer to enter into a swap with you will be the best prices available to you. Similarly, provision of an indicative valuation or price by the Swap Dealer should not be considered to be an offer to enter into or terminate the relevant transaction at that value or price. Because swaps are not standardized or publicly traded, their value at any time may not be precisely ascertainable; different market participants, using different pricing models, may arrive at different values. The transaction costs associated with a swap may be material and may impact the level at which a swap is executed or terminated. Transaction costs include, but are not necessarily limited to, trading costs, hedging costs, funding charges, swap dealer fees and legal expenses.

Upfront Payment.[8] Consideration should be given as to the characterization of an upfront payment made by the Swap Dealer on any swap. To the extent that that the Swap Dealer makes an upfront payment to you that constitutes an off-market payment, such amount could be considered to be a loan from the Swap Dealer to you. You should consult with your counsel regarding any upfront payment you may receive from the Swap Dealer in connection with the swap.

Trading for Swap Dealer's Own Account; Swap Dealer's Financial Market Activities. The Swap Dealer may act in various capacities throughout the financial markets and these activities may, in certain

[7] Include depending on whether an issuer is expected to deliver collateral directly to the Swap Dealer or to a third-party custodian.

[8] Include if the swap includes an upfront payment.

circumstances, adversely affect the value of the swap. The Swap Dealer may engage in proprietary trading for its own accounts in instruments similar to the swap, subject to regulatory restrictions on such proprietary trading activities, engage in similar or offsetting transactions with other counterparties or act as calculation agent with respect to Events of Default, Termination Events or other events. Such trading and hedging activities can adversely affect the value of the swap.

Index Risk. The Swap Dealer may provide data that is used to compile the floating rate index on the swap, such as the SIFMA Index and LIBOR. [The Swap Dealer or an affiliate of the Swap Dealer may be a reference bank for purposes of setting LIBOR.][9] [In the Underwriter's capacity as a remarketing agent, the Underwriter may remarket bonds that are included in the calculation of the SIFMA Index.][10] Recent reports have identified problems in the way that LIBOR has been set in past years. Although the matter is still under review by relevant regulatory authorities, there is a possibility that the method of establishing LIBOR could change. The Municipal Securities Rulemaking Board also recently announced that it will review indices used by the municipal market to develop educational materials about their use and to ensure that the market operates fairly and transparently. The method of establishing indices used in the municipal market, including the SIFMA Index, may change over time. A change in LIBOR or the SIFMA Index may affect the rate that you pay, or receive, as the case may be, on the swap. In addition, there is a risk that, at any point in time, the indices (and therefore the rate that you pay, or receive on the swap, as the case may be) may be affected by factors that are unrelated to the market for swaps generally.

Compliance with Dodd-Frank. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank"), which was signed into law in July 2010, regulatory agencies, including the U.S. Commodity Futures Trading Commission (the "CFTC") and the Securities and Exchange Commission are required to adopt, and are in the process of promulgating, regulations governing multiple aspects of swap transactions and the functioning of the swap market. More specifically, the CFTC has adopted regulations which enumerate certain business conduct standards applicable to swap dealers (the "CFTC Business Conduct Standards") when dealing with counterparties generally, and additional requirements applicable to swap dealers when dealing with Special Entities[11], including municipal market issuers. Under the CFTC Business Conduct Standards, the Swap Dealer is required to have a reasonable basis to believe that you have a "qualified independent representative" for the swap that has, among other things, undertaken a duty to act in your best interests and to evaluate the pricing and appropriateness of the swap. The compliance date for the CFTC Business Conduct Standards is October 14, 2012. As further regulations under Dodd-Frank are finalized or become effective, the Swap Dealer is expected to be required to adopt additional processes or procedures. The [Underwriter] [Swap Dealer] reserves the right to supplement these disclosures or request certain additional representations from you and your qualified independent representative.

Role of the [Underwriter][Swap Dealer]. The [Underwriter][Swap Dealer] is acting solely as a principal, and not as your agent, advisor or fiduciary in connection with the swap. The [Underwriter][Swap Dealer] has not assumed a fiduciary responsibility in your favor with respect to the swap and nothing in the swap documents or in any prior relationship between you and the [Underwriter][Swap Dealer] creates an advisory, fiduciary or agency relationship between you and the [Underwriter][Swap Dealer] in respect of the swap (whether or not the Swap Dealer or any affiliate of the [Underwriter][Swap Dealer] has provided or is currently providing other services to you on related or other matters). In connection with the swap, the Swap Dealer is your arm's length contractual counterparty. The [Swap Dealer][Underwriter] has different financial interests than you do. You should determine, without reliance upon the [Underwriter][Swap Dealer] or any of its affiliates, the financial and economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the swap and that you are capable of

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[9] Include if applicable.
[10] Include if applicable.
[11] As such term is defined in Dodd-Frank and the CFTC Business Conduct Standards.

assuming such risks and should consult, to the extent you deem necessary, with your own legal, tax, accounting and financial advisors [qualified independent representative, municipal advisors] to determine whether the swap is in your best interest and make an independent analysis and decision to enter into the swap based on such advice. The [Swap Dealer] [Underwriter] is not expressing an opinion as to whether you should enter into a swap.

<u>Assessing the Magnitude of Potential Exposure</u>

In assessing the magnitude of your exposure on a swap, consideration should be given both as to the impact on your ongoing cash flow as well as the impact if the swap were to terminate at a time when you would be obligated to make a Termination Payment.

For example, your maximum exposure on each payment date under a fixed-payer swap is determined by assuming, as of a date of determination, that the floating rate is zero. The maximum exposure on each payment date would be equal to the fixed rate applied to the Notional Amount in respect of such payment period. Likewise, if such swap were terminated at such time as the swap floating rate was at or near zero, the Termination Payment could be substantial, and would approximate the present value of the fixed rate applied to the Notional Amount payable over the remaining term of the swap. In addition, if you have entered into the swap in connection with an issue of variable rate bonds, and there is a disruption in the market or some other event affects the rate on your variable rate bonds, you may be required to make maximum payments on the swap at a time when you are also required to make payments on the Bonds at or near their maximum rate. [*Delete the following sentence if the Issuer is not issuing VRDOs*.] [If you are contemplating entering into a swap in connection with your VRDOs, you should consider the financial risk considerations discussed in the SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 related to Variable Rate Demand Obligations related to the magnitude of potential exposure on the VRDOs.]

For each product, add disclosure as applicable: [12]

<u>OPTION 1</u>: Fixed Payer Swap

<u>OPTION 2</u>: Fixed Receiver Swap

<u>OPTION 3</u>: Basis Swap

<u>OPTION 4</u>: Interest Rate Cap

<u>OPTION 5</u>: [Other Swaps]

[12] Include, as appropriate, a description [text, grid or other format] of the magnitude of the potential exposure of an issuer under market conditions unfavorable to an issuer, as to both regularly scheduled swap payments and swap termination payments.