

SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

[Variable Rate Demand Obligations¹]

The following is a general description of the financial characteristics of Variable Rate Demand Obligations (VRDOs), as well as a general 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 issue VRDOs. If you have any questions or concerns about these disclosures, please make those questions or concerns known immediately to us. In addition, you should consult with your financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate. **DELETE THE FOLLOWING SENTENCE IF THE ISSUER HAS DETERMINED THE STRUCTURE OF THE FINANCING:** [If you decide that you would like to pursue this financing alternative, we may provide you with additional information more specific to your particular VRDO issue.] **[ADD THE FOLLOWING SENTENCE IF THE VRDOs ARE STRUCTURED WITH AN INTEREST RATE SWAP:** If you are contemplating entering into an interest rate 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 Interest Rate Swaps.]

IF A CONDUIT ISSUE, ADD THE FOLLOWING (MODIFY AS NECESSARY TO REFLECT THE TERMS OF THE TRANSACTION): [As the issuer of the Bonds, you will be a party to the bond purchase agreement and certain other legal documents to be entered into in connection with the issuance of the Bonds, but the material financial risks described below will be borne by the obligor, as set forth in those legal documents. A copy of our disclosure letter is also being sent to the obligor.] **[IF NOT A CONDUIT ISSUE, DELETE REFERENCES BELOW TO “THE OBLIGOR”.]**

Financial Characteristics

Maturity and Interest. VRDOs are debt securities with nominal long-term maturities (often 20 to 30 years) in which the interest rate is reset by a remarketing agent on a periodic basis (e.g., daily, weekly, monthly, annually or commercial paper periods up to 270 days). For each interest reset, subject to any maximum interest rate stated in the VRDOs, the remarketing agent is required to set the interest rate at the rate necessary, in its judgment, as the lowest rate that permits the sale of the VRDOs at 100% of their principal amount (par) on the interest reset date. The maximum interest rate for the VRDOs generally will range between 9% per annum and 15% per annum, depending on, among other factors, the structure of the VRDOs, the terms of any credit or liquidity support and whether interest is intended to be taxable or tax-exempt. Interest on the VRDOs is paid at the applicable variable rate monthly (for daily, weekly or

¹ Under MSRB Rule G-17, the underwriters must provide an issuer with disclosures about complex municipal securities financings that they recommend to the issuer for a negotiated offering. Variable rate demand obligations generally will be treated as a complex municipal securities financing.

monthly modes), semiannually (for the annual mode) or at the end of each commercial paper period (for the commercial paper or CP mode). VRDOs typically are offered to investors in minimum authorized denominations of not less than \$100,000.

Redemption. Optional redemption of VRDOs generally is more flexible than with fixed rate bonds and is usually at a redemption price of par, without redemption premium. Short-term VRDO modes (daily or weekly) may be subject to optional redemption on any business day or, in some cases, on any interest payment date. Longer term VRDO modes (monthly, annual or CP) typically will be subject to optional redemption on any interest payment date. You will be required to send out a notice of optional redemption to the holders of the bonds, usually not less than 15 to 30 days prior to the redemption date.

Optional and Mandatory Tender. For VRDOs in a daily, weekly, monthly or annual mode, the owner of the VRDOs generally will have the option to tender (or “put”) its VRDOs for purchase at par at a specified time (typically any business day for daily and weekly modes and on the interest reset date for longer modes) with a specified amount of advance notice (e.g., same day’s notice for VRDOs in the daily mode, 7 days’ notice for VRDOs in the weekly mode and 15 to 30 days’ notice for longer modes). At the end of each commercial paper period for a VRDO in the CP mode, the VRDO will be subject to mandatory tender for purchase at par. VRDOs also may be subject to mandatory tender for purchase upon the occurrence of certain events, including certain conversions from one interest rate mode to another or upon replacement or expiration of a credit or liquidity facility. As described below, the remarketing agent is obligated to use its best efforts to remarket VRDOs subject to optional or mandatory tender.

Liquidity Support. In the ordinary course, the source of funds to pay owners of tendered VRDOs will be the proceeds of the remarketing of the VRDOs by the remarketing agent to new investors. You [or the obligor] will be required to ensure a source of funds to pay the purchase price due to the tendering owners in the event that the remarketing agent is unable to successfully remarket the VRDOs. While some issuers may provide liquidity support from their own funds (self-liquidity), in most cases liquidity support will be provided from a financial institution. The liquidity support may take the form of an irrevocable letter of credit issued by a bank (the letter of credit also will provide credit support for the payment of principal of and interest on the VRDOs) or it may be in the form of a standby bond purchase agreement (SBPA). Unlike a letter of credit, the SBPA typically will set forth certain events that will permit the provider of the SBPA to terminate the SBPA upon notice or, in some circumstances, will cause the SBPA to terminate automatically. The authorizing documents for the VRDOs may provide that, if the liquidity facility has been terminated, you [or the obligor] will be required to purchase the VRDOs from their owners and/or pay a higher interest rate on the VRDOs, in some cases as high as the maximum permitted rate on the VRDOs.

Role of Remarketing Agent. The remarketing agent is a broker-dealer or municipal securities dealer appointed and paid by you [or the obligor] to set the periodic interest rate on the VRDOs and to use its best efforts to sell VRDOs that have been tendered (optionally or mandatorily) for purchase. Typically, the underwriter or senior managing underwriter of the VRDOs is the remarketing agent. The remarketing agent’s annual fee is based on the outstanding principal

amount of the VRDO issue and the interest mode then in effect. [STATE THE REMARKETING FEE IF IT HAS BEEN DETERMINED: The remarketing fee for the VRDOs during the initial [_____] mode will be [__] basis points per year.]

In some cases, the remarketing agent, in its sole discretion, may acquire tendered VRDOs for its own inventory in order to achieve a successful remarketing (i.e., because there otherwise are not enough buyers to purchase the VRDOs or for other reasons), thereby avoiding the need to draw on any liquidity facility to pay the tendering bond owners. The remarketing agent, however, is not obligated to purchase VRDOs and may cease doing so at any time without notice. Although not required to do so, the remarketing agent also may make a market in the VRDOs by purchasing and selling VRDOs outside of the formal tender process. Any such purchases and sales may be at prices other than par. The remarketing agent also may sell VRDOs that it owns to one or more affiliated investment vehicles or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the VRDOs. The purchase of VRDOs by the remarketing agent may create the appearance that there is greater demand for the VRDOs in the market than is actually the case.

Under certain circumstances, you [or the obligor] may remove the remarketing agent or the remarketing agent may resign or cease its remarketing efforts. The authorizing documents for the VRDOs will set forth any required notice and will require appointment of a successor remarketing agent.

[IF APPROPRIATE FOR A PARTICULAR ISSUER OR TRANSACTION, PORTIONS OF THE RISK DISCLOSURE FOR FIXED RATE BONDS MAY BE INSERTED, SUCH AS, FOR EXAMPLE, EXCERPTS FROM THE “SECURITY” SECTION TO DESCRIBE THE RELEVANT SECURITY FOR THE VRDOs.]

Financial Risk Considerations

Certain risks may arise in connection with your issuance of VRDOs, including some or all of the following (generally, the obligor, rather than you, will bear these risks for conduit revenue bonds):

Interest Rate Risk

Interest rate risk is the possibility that the interest rate that you pay on the VRDOs may increase, which can be triggered by various factors, such as a general increase in short-term interest rates, a decrease in marginal income tax rates, credit concerns relating to you or your market sector or industry or a reduction in the credit quality or ratings of the entity providing liquidity and/or credit support for the VRDOs. If any of these events occur, the debt service costs associated with the VRDOs will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash. The interest rate on the VRDOs may be capped at a maximum interest rate, which generally will range between 9% per annum and 15% per annum. See “Financial Characteristics – *Maturity and Interest*” above.

Liquidity Risk

You may face liquidity risk since VRDOs may be subject to optional and mandatory tender for

purchase by their owners. If the remarketing agent is unable to successfully remarket the tendered VRDOs, in order to pay the tendering owners, the tender agent or trustee will demand funds from you, if you are providing self-liquidity, or it will draw funds under any applicable liquidity facility. Thereafter, unless and until the VRDOs are successfully remarketed, you will pay interest to the liquidity provider at an agreed-upon rate on the amount drawn, which is typically higher than the rate otherwise borne by the VRDOs. In addition, you may be required to pay the principal of the unremarketed VRDOs by the date set forth in the letter of credit or SBPA, which date is likely to be earlier than the stated maturity date of the VRDOs. The period of time by which you must pay the principal amount and interest on the VRDOs to the liquidity provider is known as a "term out." If there is no term out, you will be required to immediately repay the full amount of any draws to the liquidity provider. Depending on the amount of the VRDOs that are not remarketed, you might be obligated to repay the entire principal amount of the VRDOs.

Credit or Liquidity Facility Renewal Risk

Liquidity facilities, such as a letter of credit or SBPA, typically are issued for a term shorter than the stated maturity of the VRDOs, generally from one to five years. Upon expiration of the term, the liquidity facility must be renewed or replaced. You may be unable to replace the expiring liquidity facility or you may have difficulty obtaining a replacement liquidity facility at a reasonable cost. There are a limited number of financial institutions that are acceptable to the market and who are willing to provide liquidity facilities for tax-exempt VRDOs. In addition, as a result of market conditions and prospective changes in regulatory requirements, the cost of obtaining a liquidity facility may vary from currently prevailing market rates. If a liquidity provider is unwilling to extend the expiring liquidity facility and you are unable to find a suitable replacement, the VRDOs will be subject to mandatory tender for purchase and you will be required to pay the purchase price (par plus accrued interest) of the VRDOs, either by remarketing the VRDOs in a different mode that does not require liquidity (such as converting the VRDOs to fixed rate bonds), issuing refunding bonds, securing a bank loan, finding some other source of repayment or drawing on the liquidity facility. Your ability to convert the VRDOs to a different mode, to issue refunding bonds or to secure a bank loan will depend on a number of factors, including general market conditions and your creditworthiness. In the event of a draw on the liquidity facility, you will have to repay the liquidity provider as described above under "Liquidity Risk."

Liquidity Provider Default Risk

In the event that a liquidity provider is not able to perform under its liquidity facility, a default or a mandatory tender of the VRDOs may result, depending on the terms of the authorizing documents. You may be required to pay a higher rate of interest or, if a mandatory tender is triggered, you may be required to pay the purchase price (par plus accrued interest) of the VRDOs, either by remarketing the VRDOs in a different mode that does not require liquidity (such as converting the VRDOs to fixed rate bonds), issuing refunding bonds, securing a bank loan or finding some other source of repayment. Your ability to convert the VRDOs to a different mode, to issue refunding bonds or to secure a bank loan will depend on a number of factors, including general market conditions and your creditworthiness.

Issuer Default Risk

You may be in default if the funds pledged to secure your VRDOs are not sufficient to pay debt service on the VRDOs when due. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the VRDOs, the trustee and any credit and/or liquidity support provider may be able to exercise a range of available remedies against you. For example, if the VRDOs are secured by a general obligation pledge, you may be ordered by a court to raise taxes. Other budgetary adjustments also may be necessary to enable you to provide sufficient funds to pay debt service on the VRDOs. If the VRDOs are revenue bonds, you may be required to take steps to increase the available revenues that are pledged as security for the VRDOs. A default may negatively impact your credit ratings, including ratings on the VRDOs. If the ratings on the VRDOs are decreased, holders of VRDOs that are subject to optional tender may elect to put their VRDOs, the remarketing agent may have difficulty remarketing the VRDOs and the VRDOs likely will bear a higher interest rate after any applicable interest reset. Further, a default may effectively limit your ability to publicly offer bonds or other securities at market interest rate levels. If you are unable to provide sufficient funds to remedy the default, subject to applicable state law and the terms of the authorizing documents, it may be necessary for you to consider available alternatives under state law, including (for some issuers) state-mandated receivership or bankruptcy. A default also may occur if you are unable to comply with covenants or other provisions agreed to in connection with the issuance of the VRDOs.

This description is only a brief summary of issues relating to defaults and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

Reinvestment Risk

You may have proceeds of the VRDOs to invest prior to the time that you are able to spend those proceeds for the authorized purpose. Depending on market conditions, you may not be able to invest those proceeds at or near the rate of interest that you are paying on the VRDOs, which is referred to as “negative arbitrage”.

Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the VRDOs (if issued as tax-exempt obligations) to become taxable retroactively to the date of issuance of the VRDOs, which may result in an increase in the interest rate that you pay on the VRDOs or the mandatory redemption of the VRDOs. The IRS also may audit you or your VRDOs or other bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the VRDOs are declared taxable, or if you are subject to audit, holders of VRDOs that are subject to optional tender may elect to put their VRDOs, the remarketing agent may have difficulty remarketing the VRDOs and the VRDOs likely will bear a higher interest rate after any

applicable interest reset. Further, your ability to issue other tax-exempt bonds also may be limited.

This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the VRDOs.