

RESOLUTION NO. 11-79

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LANCASTER, CALIFORNIA APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION OF A TRUST AGREEMENT, A BOND PURCHASE CONTRACT, A PROPERTY LEASE, A LEASE AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT AND AN OFFICIAL STATEMENT RELATING TO THE ISSUANCE OF THE LANCASTER POWER AUTHORITY'S REVENUE BONDS (SOLAR RENEWABLE ENERGY PROGRAM) AND APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Lancaster Power Authority (the "Authority") is a joint powers authority organized pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California;

WHEREAS, the City of Lancaster (the "City") is a municipal corporation and charter City, organized and existing under the Constitution and laws of the State of California;

WHEREAS, the City has established the Authority to act as the Lancaster Municipal Utility for the purpose of owning and operating alternative energy generating facilities in order to decrease the communities reliance on non-reusable energy sources;

WHEREAS, the Authority has initiated multiple solar energy projects throughout the City;

WHEREAS, for the purpose of furthering the City's desire to increase reliance on renewable energy sources, the Authority has entered into Solar Power Purchase Agreements ("PPA's") with SolarCity Corporation ("SolarCity") which provide for the acquisition of electrical energy produced by solar power generating facilities identified in the PPA's and in the Solar Power Sales Agreements ("PSAs") between the Authority and Lancaster School District and Eastside School District, respectively (collectively, the "Districts");

WHEREAS, in accordance with the terms of the PPAs, SolarCity will construct solar power generating facilities at each of the facilities identified in the PPAs and PSAs (the "System") and the Authority will purchase the electrical energy produced by the Systems and will resell the electrical energy to the Districts;

WHEREAS, in order to finance the acquisition of the electrical energy, the Authority deems it necessary to issue at this time lease revenue bonds in a principal amount of approximately Twenty-Eight Million Dollars (\$28,000,000) (the "Bonds"), and to use the proceeds of such Bonds to pay costs in connection with the issuance of the Bonds to finance the acquisition of the electrical energy and to make certain other deposits as required by the Trust Agreement;

WHEREAS, Section 5450 *et seq.* of the California Government Code (the “Government Code”) provides statutory authority for pledging collateral for the payment of principal or prepayment price of, and interest on, any bonds, and the Government Code creates a continuing perfected security interest which shall attach immediately to such collateral irrespective of whether the parties to the pledge document have notice of the pledge and without the need for any physical delivery, recordation, filing or further act, and, therefore, the City and the Authority hereby warrant and represent that pursuant to the Lease Agreement, the Trust Agreement, by and among U.S. Bank National Association, as trustee (the “Trustee”), the City and the Authority (the “Trust Agreement”), and the Government Code, the Trustee will have a first priority perfected security interest in the Lease Payments described in the Lease Agreement pursuant to the Government Code; and

WHEREAS, there have been prepared and submitted to this meeting forms of:

- (1) a draft of the Trust Agreement of the Authority;
- (2) a draft of the Preliminary Official Statement of the Agency to be used in connection with the sale of the Bonds (such Preliminary Official Statement in the form presented at this meeting with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as “Preliminary Official Statement”);
- (3) a draft of the Property Lease between the City and Authority;
- (4) a draft of the Lease Agreement between the City and the Authority;
- (5) a draft of the Continuing Disclosure Agreement; and
- (6) a draft of the proposed Bond Purchase Contract among the City, the Authority and the Underwriter.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lancaster, as follows:

Section 1. Subject to the provisions of the Trust Agreement referred to in Section 2 hereof, the issuance of the Bonds in the aggregate principal amount of approximately Twenty-Eight Million Dollars (\$28,000,000) on the terms and conditions set forth in, and subject to the limitations specified in, the Trust Agreement and the Bond Purchase Contract, is hereby authorized and approved. The Bonds will be dated, will bear interest at the rates, will mature on the dates, will be issued in the form, will be subject to redemption, and will be as otherwise provided in the Trust Agreement, as the same will be completed as provided in this Resolution. The proceeds of the sale of the Bonds shall be applied as provided in the Trust Agreement.

Section 2. The Trust Agreement, in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. The Mayor and the City Manager of the City are hereby authorized and directed to execute and deliver the Trust Agreement in the form presented at this meeting with such changes, insertions and omissions as may be requested by Bond Counsel and approval by the Mayor, said execution

being conclusive evidence of such approval. If the City Manager determines that it would be more advantageous to the Authority and the City, the Trust Agreement may be modified to provide for the issuance of Bonds, the interest on which is excluded from Federal income taxes.

Section 3. The Bond Purchase Contract among the City, Authority and Wedbush Securities, Inc. in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein are hereby approved. The City Manger of the City is hereby authorized and directed to execute the Bond Purchase Contract in the forms presented at this meeting with such changes, insertions and omissions as may be approved by the City Manager, said execution being conclusive evidence of such approval.

Section 4. The Lease Agreement between the City and the Authority in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein are hereby approved. The Mayor of the City is hereby authorized and directed to execute the Lease Agreement in the form presented at this meeting with such changes, insertions and omissions as may be approved by the Mayor, said execution being conclusive evidence of such approval.

Section 5. The Continuing Disclosure Agreement between the Authority, the City and Urban Futures, Inc. (the "Dissemination Agent") acting as the Dissemination Agent in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. The City Manager of the City is hereby authorized and directed to execute the Continuing Disclosure Agreement in the form presented at this meeting with such changes, insertions and omissions as may be approved by the City Manager, said execution being conclusive evidence of such approval.

Section 6. The Preliminary Official Statement in substantially the form presented at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved and the use of the Preliminary Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The City Manager is hereby authorized and directed to approve any changes, additions or deletions to the Preliminary Official Statement and to deem final the Preliminary Official Statement within the mean of Rule 15c2-12.

Section 7. The preparation and delivery of an Official Statement, and its use by the Underwriter, in connection with the offering and sale of the Bonds, be and the same is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be requested by Bond Counsel or the Underwriter and approved by the City Manager, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. The Mayor of the City, the City Manager of the City, the Finance Director, the City Clerk, and any other proper officer of the City, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments, including any agreements with the City relating to the Bonds or the Systems, and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Trust Agreement, the Property Lease, the Lease Agreement, the Bond Purchase Contract, the Continuing Disclosure Agreement, the Official Statement, this Resolution and any such agreements.

Section 9. U.S. Bank National Association is hereby appointed as Trustee.

Section 10. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED and ADOPTED this ____ day of _____, 2011 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

GERI K. BRYAN, CMC
City Clerk
City of Lancaster

R. REX PARRIS
Mayor
City of Lancaster

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss
CITY OF LANCASTER)

CERTIFICATION OF RESOLUTION
City of Lancaster

I, _____, _____ of the City of Lancaster, California, do hereby certify that this is a true and correct copy of the original Resolution No. 11-79, for which the original is on file in my office.

WITNESS MY HAND AND THE SEAL OF THE CITY OF LANCASTER, on this _____ day of _____.

(seal)

RESOLUTION NO. PA 02-11

RESOLUTION OF THE LANCASTER POWER AUTHORITY APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION OF A TRUST AGREEMENT, A BOND PURCHASE CONTRACT, A PROPERTY LEASE, A LEASE AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT AND AN OFFICIAL STATEMENT RELATING TO THE ISSUANCE OF THE POWER AUTHORITY'S REVENUE BONDS (SOLAR RENEWABLE ENERGY PROGRAM) AND APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Lancaster Power Authority (the "Authority") is a joint powers authority organized pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California;

WHEREAS, the City of Lancaster (the "City") is a municipal corporation and charter City, organized and existing under the Constitution and laws of the State of California;

WHEREAS, the City has established the Authority to act as the Lancaster Municipal Utility for the purpose of owning and operating alternative energy generating facilities in order to decrease the communities reliance on non-reusable energy sources;

WHEREAS, the Authority has initiated multiple solar energy projects throughout the City;

WHEREAS, for the purpose of furthering the City's desire to increase reliance on renewable energy sources, the Authority has entered into Solar Power Purchase Agreements ("PPA's") with SolarCity Corporation. ("SolarCity") which provide for the acquisition of electrical energy produced by solar power generating facilities identified in the PPA's and in the Solar Power Sales Agreements ("PSAs") between the Authority and Lancaster School District and Eastside School District, respectively (collectively, the "Districts");

WHEREAS, in accordance with the terms of the PPAs, SolarCity will construct solar power generating facilities at each of the facilities identified in the PPAs and PSAs (the "System") and the Authority will purchase the electrical energy produced by the Systems and will resell the electrical energy to the Districts;

WHEREAS, in order to finance the acquisition of the electrical energy, the Authority deems it necessary to issue at this time lease revenue bonds in a principal amount of approximately Twenty-Eight Million Dollars (\$28,000,000) (the "Bonds"), and to use the proceeds of such Bonds to pay costs in connection with the issuance of the Bonds to finance the acquisition of the electrical energy and to make certain other deposits as required by the Trust Agreement;

WHEREAS, Section 5450 *et seq.* of the California Government Code (the "Government Code") provides statutory authority for pledging collateral for the payment of principal or prepayment price of, and interest on, any bonds, and the Government Code creates a continuing perfected security interest which shall attach immediately to such collateral irrespective of whether the parties to the pledge document have notice of the pledge and without the need for any physical delivery, recordation, filing or further act, and, therefore, the City and the Authority hereby warrant and represent that pursuant to the Lease Agreement, the Trust Agreement, by and among U.S. Bank National Association, as trustee (the "Trustee"), the City and the Authority (the "Trust Agreement"), and the Government Code, the Trustee will have a first priority perfected security interest in the Lease Payments described in the Lease Agreement pursuant to the Government Code; and

WHEREAS, there have been prepared and submitted to this meeting forms of:

- (1) a draft of the Trust Agreement of the Authority;
- (2) a draft of the Preliminary Official Statement of the Agency to be used in connection with the sale of the Bonds (such Preliminary Official Statement in the form presented at this meeting with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as "Preliminary Official Statement");
- (3) a draft of the Property Lease between the City and Authority;
- (4) a draft of the Lease Agreement between the City and the Authority;
- (5) a draft of the Continuing Disclosure Agreement; and
- (6) a draft of the proposed Bond Purchase Contract among the City, the Authority and the Underwriter.

NOW, THEREFORE, BE IT RESOLVED by the Lancaster Power Authority, as follows:

Section 1. Subject to the provisions of the Trust Agreement referred to in Section 2 hereof, the issuable of the Bonds in the aggregate principal amount of approximately Twenty-Eight Million Dollars (\$28,000,000) on the terms and conditions set forth in, and subject to the limitations specified in, the Trust Agreement and the Bond Purchase Contract, is hereby authorized and approved. The Bonds will be dated, will bear interest at the rates, will mature on the dates, will be issued in the form, will be subject to redemption, and will be as otherwise provided in the Trust Agreement, as the same will be completed as provided in this Resolution. The proceeds of the sale of the Bonds shall be applied as provided in the Trust Agreement.

Section 2. The Trust Agreement, in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. The Chairman and the Secretary of the Authority are hereby authorized and directed to execute and deliver the Trust Agreement in the form presented at this meeting with such changes, insertions and omissions as may be requested by Bond Counsel and approval by the Chairman, said execution being conclusive evidence of such approval. If the Executive Director determines that it would be more advantageous to the Authority and the City, the Trust Agreement may be modified to provide for the issuance of Bonds, the interest on which is excluded from Federal income taxes.

Section 3. The Bond Purchase Contract among the City, Authority and Wedbush Securities, Inc. in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein are hereby approved. The Executive Director of the Authority is hereby authorized and directed to execute the Bond Purchase Contract in the forms presented at this meeting with such changes, insertions and omissions as may be approved by the Executive Director, said execution being conclusive evidence of such approval.

Section 4. The Lease Agreement between the City and the Authority in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein are hereby approved. The Chairman of the Authority is hereby authorized and directed to execute the Lease Agreement in the form presented at this meeting with such changes, insertions and omissions as may be approved by the Chairman on behalf of the Authority, said execution being conclusive evidence of such approval.

Section 5. The Continuing Disclosure Agreement between the Authority, the City and Urban Futures, Inc. (the "Dissemination Agent") acting as the Dissemination Agent in substantially the form submitted at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. The Executive Director of the Authority is hereby authorized and directed to execute the Continuing Disclosure Agreement in the form presented at this meeting with such changes, insertions and omissions as may be approved by the Executive Director, said execution being conclusive evidence of such approval.

Section 6. The Preliminary Official Statement in substantially the form presented at this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved and the use of the Preliminary Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The Executive Director of the Agency is hereby authorized and directed to approve any changes, additions or deletions to the Preliminary Official Statement and to deem final the Preliminary Official Statement within the mean of Rule 15c2-12.

Section 7. The preparation and delivery of an Official Statement, and its use by the Underwriter, in connection with the offering and sale of the Bonds, be and the same is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be requested by Bond Counsel or the Underwriter and approved by the Executive Director of the Agency, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. The Chairman of the Authority, the Executive Director of the Authority, the Treasurer, the Secretary of the Authority, and any other proper officer of the Authority, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments, including any agreements with the Authority relating to the Bonds or the Systems, and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Trust Agreement, the Property Lease, the Lease Agreement, the Bond Purchase Contract, the Continuing Disclosure Agreement, the Official Statement, this Resolution and any such agreements.

Section 9. U.S. Bank National Association is hereby appointed as Trustee.

Section 10. This resolution shall take effect immediately upon its adoption.

PASSED, APPROVED and ADOPTED this ____ day of _____, 2011 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

GERI K. BRYAN, CMC
Secretary
Lancaster Power Authority

R. REX PARRIS
Chairman
Lancaster Power Authority

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss
CITY OF LANCASTER)

CERTIFICATION OF RESOLUTION
LANCASTER POWER AUTHORITY

I, _____, _____ Lancaster Power Authority, Lancaster, California, do hereby certify that this is a true and correct copy of the original Resolution No. PA 02-11, for which the original is on file in my office.

WITNESS MY HAND AND THE SEAL OF THE LANCASTER POWER AUTHORITY, on this _____ day of _____.

(seal)

NEW ISSUE - BOOK-ENTRY ONLY

RATING: S&P: " __ "
 See "RATING" herein

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with covenants of the Lancaster Power Authority (the "Authority") intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, such interest is also exempt from present State of California personal income taxes. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity is original issue discount. See "TAX EXEMPTION" herein for a discussion of the effect of certain provisions of the Code on Owners of the Bonds.

\$ _____ *
LANCASTER POWER AUTHORITY
REVENUE BONDS
(SOLAR RENEWABLE ENERGY PROGRAM)
ISSUE OF 2011A

Dated: Delivery Date

Due: November 1, as shown on the inside front cover

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision. See the section of this Official Statement entitled "BONDOWNERS' RISKS" for a discussion of certain of the risk factors that should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds.

The Lancaster Power Authority (the "Authority") will issue its Revenue Bonds (Solar Renewable Energy Program), Issue of 2011A (the "Bonds") pursuant to a Trust Agreement, dated as of December 1, 2011 (the "Trust Agreement"), by and among the Authority, the City of Lancaster (the "City") and U.S. Bank National Association, as Trustee. Proceeds of the Bonds will be used to (i) finance the prepayment for a specified supply of electricity from a 7,346.84 DC kW capacity system located on 25 sites in the City (the "Systems"), (ii) fund the Reserve Account, and (iii) pay costs of issuance of the Bonds. See "ESTIMATED SOURCE AND USES OF FUNDS" herein.

The Bonds will be payable from lease payments ("Lease Payments") to be made by the City to the Authority as rental for certain assets consisting of the Lancaster Sewer System (the "Property") (as described herein), pursuant to a Lease Agreement, dated as of December 1, 2011 (the "Lease Agreement"), by and between the Authority and the City. Such Lease Payments are payable from (i) revenues payable to the Authority with respect to energy generated from the Systems (the "Revenues"), which include (a) amounts payable to the Authority pursuant to power sales agreements between the Authority and the Lancaster School District and the Eastside Union School District with respect to the Systems, (b) performance based incentives paid to the Authority (see "THE SYSTEMS – Performance Based Incentives"), and (c) amounts payable to the Authority pursuant to the Performance Guarantees (as defined herein – see "THE REVENUES – Performance Guarantee Agreements"); and (ii) if such monies are insufficient therefor, from the City's General Fund (subject to abatement under certain circumstances described in the Lease Agreement), as more fully described herein. See "SECURITY FOR THE BONDS."

The Bonds are subject to optional redemption, mandatory term bond redemption, and extraordinary redemption from insurance and condemnation proceeds prior to their maturity under certain conditions as described herein.

The Bonds will be issued in fully registered form and, 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 of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on their maturity dates set forth on the inside cover hereof. Interest on the Bonds is payable on May 1 and November 1 of each year, commencing May 1, 2012. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE TRUST AGREEMENT. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY, STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

The Bonds are offered, when, as and if issued, subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. In addition, certain legal matters will be passed on for the Authority by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, as Disclosure Counsel. It is anticipated that the Bonds will be available for delivery to DTC in New York, New York on or about January __, 2012.

WEDBUSH

Dated: January __, 2012

* Preliminary, subject to change.

\$26,910,000*
LANCASTER POWER AUTHORITY
REVENUE BONDS
(SOLAR RENEWABLE ENERGY PROGRAM)
ISSUE OF 2011A

MATURITY SCHEDULE*

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (Base:)
2013	\$675,000			
2014	710,000			
2015	750,000			
2016	795,000			
2017	370,000			
2018	425,000			
2019	485,000			
2020	545,000			
2021	615,000			
\$ 4,275,000	_____	% Term Bonds due November 1, 2026	Yield: _____	% CUSIP [†] _____
\$ 6,865,000	_____	% Term Bonds due November 1, 2031	Yield: _____	% CUSIP [†] _____
\$10,400,000	_____	% Term Bonds due November 1, 2036	Yield: _____	% CUSIP [†] _____

*Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2000-2011 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the Underwriter takes any responsibility for the accuracy of such numbers.

**LANCASTER POWER AUTHORITY
LANCASTER, CALIFORNIA**

AUTHORITY BOARD OF DIRECTORS AND CITY COUNCILMEMBERS

R. Rex Parris, *Chair/Mayor*
Ronald D. Smith, *Vice-Chair/Vice Mayor*
Marvin E. Crist, *Authority Director/Councilmember*
Sandra Johnson, *Authority Director /Councilmember*
Ken Mann, *Authority Director /Councilmember*

AUTHORITY AND CITY STAFF

Mark Bozigian, *Executive Director/City Manager*
Jason Caudle, *Assistant Executive Director/Deputy City Manager*
Barbara Boswell, *Treasurer/Finance Director*
David R. McEwen, Esq., *Authority Counsel/City Attorney*
Geri K. Bryan, *Authority Secretary/City Clerk*

SPECIAL SERVICES

Bond Counsel

Stradling Yocca Carlson & Rauth
a Professional Corporation
Newport Beach, California

Disclosure Counsel

Richards, Watson & Gershon
A Professional Corporation
Los Angeles, California

Trustee

U.S. Bank National Association
Seattle, Washington

Financial Advisor/Continuing Disclosure Agent

Urban Futures, Inc.
Orange, California

Underwriter

Wedbush Securities Inc.
Solana Beach, California

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any Bonds by any person in any jurisdiction in which such offer of solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," or other similar words and include, but are not limited to, statements under the captions "THE CITY," "CITY FINANCIAL INFORMATION," and "STATE FINANCIAL INFORMATION." The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the City has agreed to provide certain on-going financial and other data pursuant to a continuing disclosure agreement (see "CONTINUING DISCLOSURE"), neither the Authority nor the City plans to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

The information set forth herein has been obtained from the Authority, the City and other sources that are believed to be reliable, but it is not guaranteed as to its accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither 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 or the City since the date hereof. All summaries of the resolutions, the Trust Agreement, laws and statutes or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exception from the registration requirements contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER MAY OFFER AND SELL BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE ORIGINAL PURCHASERS.

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**LANCASTER POWER AUTHORITY
REVENUE BONDS
(SOLAR RENEWABLE ENERGY PROGRAM)
ISSUE OF 2011A**

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement.

General

This Official Statement, including the cover page, inside cover page and appendices hereto, is provided to furnish information in connection with the sale by the Lancaster Power Authority (the "Authority") of its \$26,910,000* aggregate principal amount of Revenue Bonds (Solar Renewable Energy Program), Issue of 2011A (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of December 1, 2011 (the "Trust Agreement"), by and among the Authority, the City of Lancaster (the "City") and U.S. Bank National Association, as trustee (the "Trustee"). Proceeds from the sale of the Bonds will be used to (i) finance the prepayment for a specified supply of electricity from the Systems (as defined herein, see "THE SYSTEMS"); (ii) fund the Reserve Account; and (iii) pay costs of issuance of the Bonds. See "ESTIMATED SOURCE AND USES OF FUNDS."

The Bonds will be dated the Delivery Date, mature on November 1 in the years and in the amounts shown on the inside front cover of this Official Statement. Interest on the Bonds will be calculated at the rates shown on the inside cover page of this Official Statement, payable semiannually on May 1 and November 1 in each year, commencing on May 1, 2012, by check mailed to the registered owners thereof or upon the request of the Owners of \$1,000,000 or more in principal amount of Bonds, by wire transfer to an account in the United States which shall be designated in written instructions by such Owner to the Trustee on or before the Record Date preceding the Payment Date.

The Bonds will be executed and delivered as one fully-registered Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Bonds. See "THE BONDS – Book-Entry Only System" and "APPENDIX D – DTC'S BOOK-ENTRY ONLY SYSTEM."

Security for the Bonds

The Bonds are payable solely from lease payments ("Lease Payments") to be made by the City to the Authority for leasing certain assets consisting of the Lancaster Sewer System (the "Property") pursuant to a Lease Agreement, dated as of December 1, 2011 (the "Lease Agreement"), by and between the City, as lessee, and the Authority, as lessor. Pursuant to the Trust Agreement, the Authority will assign to the Trustee for the benefit of the Owners of the Bonds, certain of its rights under the Lease Agreement, including its rights to receive Lease

* Preliminary, subject to change.

Payments for the purpose of securing the payment of debt service on the Bonds. Lease Payments are payable from the Revenues, interest earnings on the Funds and Accounts held by the Trustee and, to the extent necessary, from the City's General Fund. As defined in the Trust Agreement and the Lease Agreement, "Revenues" means (a) the amounts payable to the Authority pursuant to each of the power sales agreements between the Authority and the Lancaster School District and the Eastside Union School District with respect to the Systems (see "THE SYSTEMS – The Power Sales Agreements" herein), (b) performance based incentives paid to the Authority (see "THE SYSTEMS – Performance Based Incentives"), and (c) amounts payable to the Authority pursuant to the Performance Guarantees (as defined herein – see "THE REVENUES – Performance Guarantee Agreements"). The City covenants under the Lease Agreement to take such action as necessary to include the Lease Payments in its annual budget and to make all necessary appropriations therefor from the City's General Fund (subject to abatement under certain circumstances described in the Lease Agreement). See "SECURITY FOR THE BONDS" herein.

A Reserve Account will be established and maintained by the Trustee pursuant to the Trust Agreement. Upon issuance of the Bonds, the Trustee will deposit into the Reserve Account from the sale proceeds of the Bonds, an amount equal to the initial Reserve Requirement for the Bonds (see SECURITY FOR THE BONDS – Reserve Account). Lease Payments payable by the City under the Lease Agreement are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. However, under certain circumstances, Lease Payments may be abated under the Lease Agreement without constituting a default. Pursuant to the Trust Agreement, money in the Reserve Account will be used by the Trustee to replenish the Lease Payment Account in the event of a deficiency in such account for payment of interest and/or principal of the Bonds. See "SECURITY FOR THE BONDS" and "BONDOWNERS' RISKS."

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE TRUST AGREEMENT. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The City

The City is located in the County of Los Angeles approximately 60 miles northeast of the City of Los Angeles in the southwest portion of the Antelope Valley between the City of Palmdale and Edwards Air Force Base. The City was incorporated on November 22, 1977 and, on April 13, 2010, voters approved Measure C which grants the City its Charter City status. The mayor and city council are elected at large. The City is at an elevation of 2,356 feet and experiences a dry climate. The average annual rainfall is 1.29 inches per year and the average temperature is 62 degrees.

Continuing Disclosure

The City and the Authority have covenanted in a Continuing Disclosure Agreement to prepare and deliver an annual report to certain national and state repositories and to provide certain other information. See "CONTINUING DISCLOSURE" and "APPENDIX A – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Summaries of Documents

This Official Statement contains descriptions of the Bonds, the Trust Agreement, the Lease Agreement, and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors' rights generally. Capitalized terms not defined herein shall have the meanings set forth in the Trust Agreement or the Lease Agreement. Copies of the Trust Agreement and the Lease Agreement are available for inspection during business hours at the corporate trust office of the Trustee in Seattle, Washington.

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, and 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 or the City since the date hereof.

Unless otherwise expressly noted, all references to internet websites in this Official Statement, including without limitation, the City's website, are shown for reference and convenience only, and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the City and the City makes no representation regarding the information therein.

THE PROPERTY

The Property consists of the Lancaster Sewer System and is subject to a property lease between the Authority and the City, dated December 1, 2010 (the "Property Lease").

On April 2, 1979 the City of Lancaster, by Resolution No. 79-18, authorized inclusion of certain territories then and thereafter to the Consolidated Sewer Maintenance District of Los Angeles County (CSMD) for the maintaining of local and lateral sewers pursuant to State Law. In May 2006, the State of California mandated all owners and operators of sewer systems to comply with new Waste Discharge Requirements (WDR's). The WDR's require duplication of effort by owners and operators of a system, if they are not the same entity. Because the City owns the local sewer system and CSMD maintains the local sewer system for the City, a sewer feasibility study was prepared to recommend an appropriate course of action to properly serve the citizens of Lancaster.

On December 12, 2006, the Sewer Feasibility Study was presented to the City Council with a recommendation to withdraw from the CSMD. The City Council agreed with the recommendation and adopted Resolution No. 06-245 requesting withdrawal from the CSMD and authorized staff to immediately commence withdrawal proceedings from the CSMD and prepare for providing direct operation and maintenance of the City sewer system effective July 1, 2008.

In order to have a viable operation and maintenance program in place by July 1, 2008, various tasks needed to be accomplished, including establishment of an annual sewer service charge for operation, maintenance and replacement costs for the local sewer system. A sewer service charge was established by Ordinance No. 876 on May 8, 2007. A public hearing was

held on June 26, 2007 at which there was no majority protest, and a sewer service charge was established.

The collection, treatment, and disposal of wastewater within the City and adjacent unincorporated areas are under the jurisdiction of District No. 14 of the Sanitation Districts of Los Angeles County. District No. 14 owns and maintains the trunk sewers and the Lancaster Wastewater Reclamation Plant (LWRP), which convey and treat wastewater generated by residential, commercial and industrial areas of the City. The City owns, operates and maintains local wastewater conveyance within the City. Wastewater generated within the City initially flows through the City's local collection system and then flows to regional trunk sewer pipelines of District No. 14 to be treated at the LWRP located north of the City. The Utility Services Division of the Public Works Department manages, operates and maintains the City-owned sanitary sewer collection system. The sewer system contains approximately 425.7 miles of gravity sewer main pipelines, about 8,879 manholes, and a sewer lift station.

Since the City's assumption of sewer maintenance functions on July 1, 2008, the City has taken a number of actions to improve maintenance services. The City has placed a stronger emphasis on the proactive cleaning of the sewer pipelines to reduce the number of sewer system overflows at manholes. A new sewer replacement fund was also established by the City to facilitate timely replacement of old, deteriorated pipes. In fall 2009, the City Council of the City adopted Ordinance No. 926 and Resolution 09-91, to create the City's Sanitary Sewer FOG Control Program, which encourages community responsibility and local business and environmental stewardship of the sewer system. "FOG" is an acronym for fats, oils and grease, a combination of residual kitchen wastes resulting from food processing and preparation of meals. In view of FOG accumulation being identified by the City as the single largest cause of sanitary sewer pipe blockages and to control and prevent such blockages, the FOG Control Program requires food service establishments to apply for an obtain a FOG Wastewater Discharge Permit. The permit allows the subject food service establishment to discharge to the City's sanitary sewer system under controlled conditions, such as in conjunction with the use of grease interceptors, specified kitchen best management practices, or other acceptable devices or methods. See "Lancaster Sanitary Sewer Collections System 2009-2010 Annual Performance Report," on file with the City Clerk of the City.

Based on a letter report, initially dated November 3, 2010 and updated on October 4, 2011, prepared by NBS, Temecula, California, the Property (excluding lift station and rights of way) is valued not to be less than the GASB 34 value of \$115,965,320. The total replacement cost new less depreciation is estimated to be \$373,334,870, and the total original cost less depreciation is \$185,555,857.

ESTIMATED SOURCE AND USES OF FUNDS

The following table shows the estimated source and uses of the proceeds from the sale of the Bonds:

Source:

Principal amount of the Bonds \$ _____*

Uses:

Original Issue Discount.....
Underwriter's Discount.....
Program Trust Fund
Lease Payment Account.....
Reserve Account (1).....
Costs of Issuance Account (2).....
Total Uses

- (1) An amount equal to the Reserve Requirement of the Bonds.
(2) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor, Trustee, printing expenses, rating fee and other costs.

* Preliminary, subject to change.

ANNUAL DEBT SERVICE*

The following table shows the scheduled annual debt service for the Bonds:

Bond Year Ending November 1	Principal	Interest	Total Annual Debt Service (1)
2012	-	\$ 1,075,018.02	\$ 1,075,018.02
2013	\$ 675,000.00	1,198,162.50	1,873,162.50
2014	710,000.00	1,184,662.50	1,894,662.50
2015	750,000.00	1,170,462.50	1,920,462.50
2016	795,000.00	1,147,962.50	1,942,962.50
2017	370,000.00	1,124,112.50	1,494,112.50
2018	425,000.00	1,113,012.50	1,538,012.50
2019	485,000.00	1,098,137.50	1,583,137.50
2020	545,000.00	1,078,737.50	1,623,737.50
2021	615,000.00	1,056,937.50	1,671,937.50
2022	685,000.00	1,032,337.50	1,717,337.50
2023	765,000.00	1,000,827.50	1,765,827.50
2024	850,000.00	965,637.50	1,815,637.50
2025	940,000.00	926,537.50	1,866,537.50
2026	1,035,000.00	883,297.50	1,918,297.50
2027	1,140,000.00	835,687.50	1,975,687.50
2028	1,250,000.00	781,537.50	2,031,537.50
2029	1,365,000.00	722,162.50	2,087,162.50
2030	1,490,000.00	657,325.00	2,147,325.00
2031	1,620,000.00	586,550.00	2,206,550.00
2032	1,760,000.00	509,600.00	2,269,600.00
2033	1,910,000.00	423,360.00	2,333,360.00
2034	2,070,000.00	329,770.00	2,399,770.00
2035	2,240,000.00	228,340.00	2,468,340.00
2036	2,420,000.00	118,580.00	2,538,580.00
Total	<u>\$26,910,000.00</u>	<u>\$21,248,755.52</u>	<u>\$48,158,755.52</u>

* Preliminary; subject to change.

(1) Based on an estimated net interest rate of 4.8579%.

THE SYSTEMS

As used herein, the "Systems" consist of solar photovoltaic systems improvements for the Lancaster School District and Eastside Union School District (together, the "Districts"), located on 25 sites within the City and with an aggregate system capacity of 7,547.42 direct current ("DC") kilowatts ("kW"). The Authority, the City, and the Districts expect that the Systems will reduce energy costs at the Districts' properties.

Construction of the Systems, beginning with the district office site for the Lancaster School District, commenced in May, 2011. As of October 31, 2011, construction was under way for all of the 25 System sites, except for the Mariposa and Discovery sites of the Lancaster School District, which were in the design phase. After construction of a System is complete, the Authority expects that Southern California Edison ("SCE") will conclude its final inspections and provide permission to operate the System within approximately four (4) weeks. Currently, the Authority projects that SCE will provide permission to operate with respect to sixty percent (60%) of the Systems by mid-December, 2011.

As of [the date of the POS], the construction or operational status of each System is as follows:

<u>System Site</u>	<u>Status of Construction/Operations (as of [the date of the POS])</u>
LANCASTER SCHOOL DISTRICT	
1. Amargosa Creek	
2. Desert View	
3. District Office	
4. El Dorado	
5. Endeavor	
6. Jack Northrop	
7. Joshua	
8. Learning Center	
9. Lincoln	
10. Linda Verde	
11. Miller School	
12. Mote Vista	
13. Nancy Cory	
14. New Vista	
15. Park View	
16. Piute	
17. Sierra	
18. Sunnydale	
19. West Wind	
20. Discovery	
21. Mariposa	
EASTSIDE UNION SCHOOL DISTRICT	
22. Columbia	
23. Eastside Elementary	
24. Gifford C. Cole	
25. Tierra Bonita	

Revenues of the Systems have been projected by the Seller (as defined under the caption "– The Seller" below) based on the product of (a) the expected electricity production of each System as determined by the Seller, and (b) the contract price per kilowatt hour ("kWh") at each site for electricity purchased under the applicable Power Sales Agreement (discussed below).

The SolarCity Power Purchase Agreement; Prepayment

The Authority has entered into a Solar Power Purchase Agreement with the Seller as to each of the 25 Systems (each individually and collectively, the "SolarCity PPA"). Pursuant to the SolarCity PPA, the Authority and the Seller have contracted for the Authority to purchase from the Seller all of the electric energy generated by the Systems for an initial delivery term of 25 years commencing, as to each System, on the date the Seller gives the Authority written notice that the applicable System is mechanically complete and capable of providing electric energy to the delivery point. At the end of such initial delivery term, the term may be extended for one additional five (5) year term.

Each SolarCity PPA provides the Authority with an option to purchase the applicable System, at the end of contract year six (at the greater of a specified price or fair market value), contract year ten (at the greater of a specified price or fair market value), and contract year twenty-five (at the fair market value of the applicable System).

The Bonds are being issued for the purpose of financing the prepayment by the Authority of all of the electric energy generated by the Systems during the term of the SolarCity PPA (the "SolarCity Prepayment"). Under the SolarCity PPA, the Authority shall pay to the Seller the SolarCity Prepayment within forty-five (45) days after the earlier of the following (the "Prepayment Date"):

- (i) The date that sixty percent (60%) of the Systems have achieved permission to operate from SCE, if the Seller receives permission to operate from SCE prior to or on the date that sixty percent (60%) of the Systems have achieved permission to operate from SCE; and
- (ii) The date that one hundred percent (100%) of the Systems have achieved permission to operate from SCE, if the Seller received permission to operate from SCE after the date that sixty percent (60%) of the Systems have achieved permission to operate from SCE.

The SolarCity Prepayment will be due and payable forty-five (45) days from the Authority's receipt of an invoice from the Seller. The SolarCity Prepayment is the sole method and basis of payment provided in the SolarCity PPA, for the purchase by the Authority from the Seller of the energy generated by the Systems.

The estimated amount of the SolarCity Prepayment, as projected by the Seller, is detailed below.

Systems	Estimated SolarCity Prepayment
Lancaster School District	\$18,318,346
Eastside Union School District	<u>5,265,010</u>
Total	<u>\$23,583,356</u>

Performance Based Incentives

In addition to Revenues payable to the Authority pursuant to each of the PSAs, the Authority will be eligible to receive Performance Based Incentives ("PBIs") under the California Statewide Initiative ("CSI"). These incentives are based on the amount of solar energy produced by the Systems for a period of five years from the date the photovoltaic systems first produce energy.

The payments from the PBIs are expected by the Seller to be \$0.15 per kWh for the Systems located within the Lancaster School District (excluding the Systems located on the Mariposa and Discovery School sites), \$0.05 per kWh for the Systems located on the Mariposa and Discovery School sites, and \$0.09 per kWh for the Systems located within the Eastside Union School District, for the first five years of operation of the Systems. Total Performance Based Incentive revenue is projected by the Seller for all Systems to be approximately \$7.987 million over the five year period, or approximately \$1.597 million per year. See "THE REVENUES."

Under the CSI, participating utilities, including SCE, pay photovoltaic system owners or operators a set dollar amount for each kilowatt hour generated for the first five (5) years of a solar electric system's operation. The website for the CSI Program reports that the incentive

program is managed regionally by administrators, Pacific Gas and Electric Company and SCE in their respective service territories, and California Center for Sustainable Energy in the San Diego Gas & Electric territory. The Program Administrator for the region in which the City is located is SCE. SCE's goal is to provide incentives for 805 MW of the total 1,940 MW statewide goal. As of September 2011, SCE had provided (or has reserved) incentives for a total of 374 MW of solar installations.

Upon completion of each component comprising the Systems, the Authority will submit "Incentive Claims" and other materials necessary to qualify for incentive payments under the Program. The Authority expects that SCE will confirm such filing as sufficient under the program, although the Authority cannot guarantee receipt of PBIs from SCE or under the CSI. See "BONDOWNERS' RISKS – Performance Based Incentives." The incentive payments under the CSI program are derived from a surcharge imposed on utility customers in California by the local utilities and the payment of these incentives is not subject to the State of California's budget process. For solar projects with a system larger than 50 kW, PBIs are monthly payments for 5 years based on actual performance (output) of the system as measured by a separate performance meter.

The CSI Program is administered by the California Public Utilities Commission. Additional information about the CSI Program is available at www.gosolarcalifornia.ca.gov. Neither the information on such website, nor any links from that website, are in any way incorporated into this Official Statement, and the Authority, the City, and the Underwriter make no representation whatsoever as to the accuracy or completeness of any of the information on such website.

Lancaster School District

Within the Lancaster School District, the Systems include installation, monitoring and warranty of photovoltaic systems at 21 school sites, including the district office. The solar shade structures have been installed primarily in the parking lot and also in the campus areas to provide shaded eating and recreation. The solar energy generated from the system will help power the school's immediate electrical load with any excess energy being "net metered" back into the Southern California Edison grid, providing a credit to the school's electricity account.

The Lancaster School District Systems are expected to have approximately 5,706.65 DC kW of aggregate electrical general capacity based on the projections from the Seller. The Lancaster School District Systems are designed to produce, on average and in the aggregate, 1,680 kWh per kW for anticipated annual electricity production of 9,587,172 kWh in year one. As calculated by the Seller, Lancaster School District's annual energy consumption from the utility grid (assuming no changes in the District's energy usage) is projected to decrease by more than 85%, with expected savings of over \$300,000 in year one.

Following year one, future production is expected to decrease 1/2 of 1% per year, due to gradual loss of System efficiency. However, in accordance with the contract between the Authority and the Seller for the design and installation of the Systems, the Seller is obtaining and providing a 10-year manufacturer performance warranty, for the benefit of the Authority, which protects against degradation of electrical generation output of more than 15% from their originally rated electrical output. See "– Warranties" below.

Eastside Union School District

Within the Eastside Union School District, the Systems include installation, monitoring and warranty of photovoltaic systems at 4 school sites. The solar shade structures have been

installed primarily in the parking lot and also in the campus areas to provide shaded eating and recreation. The solar energy generated from the system will help power the school's immediate electrical load with any excess energy being "net metered" back into the Southern California Edison grid, providing a credit to the school's electricity account.

The Eastside Union School District Systems are expected to have approximately 1,640.19 DC kW of aggregate electrical general capacity based on the projections from the Seller. The Eastside School District systems are designed to produce, on average and in the aggregate, 1,680 kWh per kW for anticipated annual electricity production of 2,755,519 kWh in year one. As calculated by the Seller, Eastside School District's annual energy consumption from the utility grid (assuming no changes in the District's energy usage) is projected to decrease by more than 90%, with expected savings of over \$25,000 in year one.

Following year one, future production is expected to decrease 1/2 of 1% per year, due to gradual loss of System efficiency. However, in accordance with the contract between the Authority and the Seller for the design and installation of the Systems, the Seller is obtaining and providing a 10-year manufacturer performance warranty, for the benefit of the Authority, which protects against degradation of electrical generation output of more than 15% from their originally rated electrical output. See "- Warranties" below.

The Solar Power Sales Agreements

General. The Authority has entered into twenty-one (21) Solar Power Sales Agreements with the Lancaster School District with respect to each of the respective Systems for the Lancaster School District and four (4) Solar Power Sales Agreements with the Eastside Union School District with respect to each of the respective Systems for Eastside School District (collectively, the "PSAs").

The PSAs require the Authority to construct the Systems and to thereafter provide the electricity to the Districts. The PSAs have an initial term of 25 years or longer if the Bonds are still Outstanding (the "Initial Term") commencing on the date that the construction of the respective System is mechanically complete and capable of providing electric energy to the delivery point. At the end of the Initial Term, the term may be extended for up to two additional five (5) year terms.

The Districts have the option to purchase the Systems, collectively or individually, on or after November 1, 2021 at a purchase price equal to the higher of the fair market value of the applicable System or the amount required to prepay a pro-rata portion of the Outstanding Bonds, as determined by an Independent Financial Consultant. The pro-rata portion shall be determined based on the cost of constructing the facility divided by the total cost of constructing all of the Systems.

The PSAs provide that, subject to certain conditions, the Districts shall purchase all of the electricity generated by the applicable System during the term of the related PSA and to make monthly payments in an amount equal to the applicable \$/kWh rate multiplied by the number of kWh of energy generated during the applicable month, as measured by the System meter.

The Authority's PSA rate for the sale of energy to the Lancaster School District, not including Mariposa and Discovery, is \$0.125 per kWh, with a 3.5% annual escalator. The Authority's PSA rate for the sale of energy generated by the Systems located on the Mariposa and Discovery sites is \$0.165 per kWh, with a 3.5% annual escalator. In addition, the Authority expects to receive the CSI PBI rebate of \$0.15 per kWh for the Lancaster School District's Systems, not including Mariposa and Discovery, and will receive CSI rebate of \$0.05 per kWh

for Mariposa and Discovery, each for the first five years. See "– Performance Based Incentives" above.

The Authority's PSA rate for the sale of energy to the Eastside School District is \$0.145 per kWh, with a 3.5% annual escalator. In addition, the Authority expects to receive the CSI PBI rebate of \$0.09 per kWh for the Eastside School District's systems for the first five years. See "– Performance Based Incentives" above.

The Authority has contracted for SolarCity to maintain the Systems, except for any repairs for maintenance resulting from the Authority's or a District's negligence, willful misconduct or breach of the SolarCity PPA or the applicable PSA, respectively. The Authority and the Seller have contracted for the Seller to provide a proprietary solar monitoring service, which will assist the Seller in monitoring and maintaining the Systems. See "– Warranties" below.

Billing and Payment

Monthly Charges. As described above, the Districts have contracted in the PSAs to purchase all of the electricity generated by the applicable Systems and to make monthly payments in an amount equal to the applicable \$/kWh rate multiplied by the number of kWh of energy generated during the applicable month, as measured by the applicable System meter. Pursuant to the PSAs, the Authority shall invoice the Districts monthly, either manually or through ACH. If manual invoicing is required, a \$25 handling charge will be added to each invoice. Remittance by the Districts is due and payable twenty (20) days from the District's receipt of the invoice. Any undisputed portion of an invoice not paid within the twenty-day period will accrue interest at the annual rate of 2.5% over the Prime Rate (but not to exceed the maximum rate permitted by law).

Taxes. The Districts shall either pay or reimburse the Authority for any and all taxes assessed on the generation, sale, delivery or consumption of electric energy produced by the System or the interconnection of the System to the Utility's electric distribution system, including property taxes on the System; provided, however, the Districts will not be required to pay or reimburse the Authority for any taxes during periods when the Authority fails to deliver electric energy to the Districts for reasons other than Force Majeure. For purposes of the PSAs, "Taxes" means any federal, state and local ad valorem, property, occupation, generation, privilege, sales, use, consumption, excise, transaction, and other taxes, regulatory fees, surcharges or other similar charges, but shall not include any income taxes or similar taxes imposed on the Authority's revenues due to the sale of energy under the PSAs, which shall be the Authority's responsibility.

The Seller

The Authority has entered into (a) a Solar Purchase and Installation Agreement with SolarCity Corporation, a Delaware corporation (the "Seller"), to provide for the design and installation of the Systems, and (b) the SolarCity PPA to provide for the sale by SolarCity and the purchase by the Authority of solar generated electric energy from the Systems (see "– The SolarCity Power Purchase Agreement; Prepayment") above).

Headquartered in Foster City, California and with nine additional offices located throughout the State, SolarCity is a leading full-service solar provider for homeowners, businesses and government organizations in the U.S. It is the first company to provide solar power system design, financing, installation and monitoring services to homeowners and businesses from a single source. SolarCity was founded in 2006 to help millions of homeowners and businesses

adopt solar power, protect themselves from rising electricity costs and protect their environment from polluting power sources. SolarCity's customers include thousands of homeowners, more than 100 schools and universities, government agencies, national landmarks, and well-known corporate clients including Walmart, Intel, British Motors and eBay. Today the company services more than 1,000 communities in Arizona, California, Colorado, Oregon and Texas.

The Manufacturers

Photovoltaic Solar Panels. The Systems' photovoltaic solar panel components will be manufactured by Yingli Green Energy Holding Company Limited ("Yingli Solar") which is a New York Stock Exchange member; symbol YGE. The firm is one of the world's largest vertically integrated photovoltaic manufacturers and markets its solar products under the name of Yingli Solar.

Yingli Solar develops, manufactures and sells its products to a wide range of markets including Germany, Spain, Italy, Greece, France, South Korea and the United States. The firm is headquartered in Baoding, China and employs more than 6,000 people worldwide.

Photovoltaic Inverters. The Systems' photovoltaic inverter components will be manufactured by Satcon Technology Corporation ("Satcon"), which is a NASDAQ Capital Market member; symbol SATC. Founded in 1985, Satcon provides system design services for large commercial and utility-scale renewable energy plants and develops innovative power conversion solutions. Satcon manufactures utility-grade solar photovoltaic inverters ranging from 30kW to 1MW, and it also sells a line of fuel cell inverters for systems ranging from 25kW to 2.4MW.

Satcon develops, manufactures and sells its products to a wide range of markets including Canada, the Czech Republic, Greece, China, and the United States. The firm is headquartered in Boston, Massachusetts and as of December 31, 2010, Satcon had 340 full-time employees, 4 part-time employees, and 86 contract employees.

Warranties

Photovoltaic Solar Panels. Subject to certain exclusions and limitations, Yingli Solar provides the following warranties in connection with its photovoltaic solar panel modules ("PV-modules"):

- **Five Year Repair, Replacement or Refund Limited Product Warranty.** PV-modules are warranted to be free from defects in materials and defects in materials and workmanship under normal application, installation, use and service conditions. For a period ending sixty (60) months from the date of sale to the original customer, Yingli Solar will, at its option, either repair or replace the product, or refund the purchase price paid by the customer. Unlike the limited Peak Power warranty, this warranty does not warrant a specific power output.
- **Limited Peak Power Warranty.** If (a) within ten (10) years from the date of sale to the customer, any PV-module exhibits (under specified conditions) a power output less than 90% of the minimum peak power specified in the product information sheet provided at the date of delivery, or (b) within twenty-five (25) years from the date of sale to the customer, any PV-module exhibits (under specified conditions) a power output less than 80% of the specified minimum peak power, and Yingli Solar (at its sole discretion) determines such loss to be due to defects in material or workmanship, Yingli Solar will replace such loss in power by either providing to the customer additional PV-modules to

make up such loss in power or by replacing the defective PV module, at Yingli Solar's option.

In addition, in connection with the requirements of California Public Utility Code Section 387.5(d)(4) and per the contract between the Authority and the Seller for design and installation of the Systems, the Seller will obtain from Yingli Solar, for the benefit of the Authority, a 10-year manufacturer performance warranty, which protects against degradation of electrical generation output of more than 15% from their originally rated electrical output.

Photovoltaic Inverters. Satcon provides a standard five (5) year unlimited hour usage warranty covering service, parts, and labor used in accordance with Satcon's inverter service schedule. The standard warranty does not cover filters, fuses, or any additional parts that are consumable. Satcon also offers an extended warranty plan, which is an extension of its standard warranty for a period of up to 20 years and can be purchased at an additional cost in five-year blocks at any time prior to expiration of the existing warranty. The Authority's contract with the Seller for design and installation of the Systems, and the contract price therein, includes Satcon's extended warranty to provide coverage for a total of 20 years for the inverters.

In addition, in connection with the requirements of California Public Utility Code Section 387.5(d)(4) and per the contract between the Authority and the Seller for design and installation of the Systems, the Seller will obtain from Satcon, for the benefit of the Authority, a 10-year manufacturer performance warranty, which protects against degradation of electrical generation output of more than 15% from their originally rated electrical output.

Seller's Warranties. Subject to certain exclusions and limitations, the Seller provides the following warranties under its contract with the Authority for design and installation of the Systems:

- **Limited Work Warranty.** For a period expiring upon the tenth (10th) anniversary of the date of interconnection of each System, the Seller warrants such installation in a good and workman-like manner in accordance with normal professional standards of performance within the solar photovoltaic power generation industry in the relevant market and with prudent electrical practices, including any necessary roof preparation for installation of the Systems. During this period, the Seller also warrants that the applicable system will be free from defects in assembly and workmanship, and be new unused, and undamaged when installed. During the warranty period, Seller will as soon as reasonably practicable (upon notice from the Authority or Seller otherwise becoming aware of a failure or breach of the applicable warranty) repair or replace the work or take some other corrective action to cause the work to conform to the warranty, at no cost or expense to the purchaser. The Seller may use new or reconditioned parts when making such repairs or replacements. Per the requirements of California Public Utility Code Section 387.5(d)(4), the Seller's work warranty covers defects and undue degradation of electrical generation output.
- **Roof Warranty.** If Seller penetrates a facility roof while installing the Systems, Seller warrants to repair roof damage it causes to areas that are within a three (3) inch radius of its roof penetrations, for a period that is the longer of (a) one (1) year following completion of installation, and (b) the length of any existing installer warranty on the facility's roof.

Solar Monitoring System. Each solar system installed by the Seller includes the provision to the Authority, during the work warranty period, of the Seller's proprietary solar monitoring service, which enables the Seller to continuously monitor the key performance

variables of the system and transmit this data to the Seller's servers through the Internet. During the work warranty period, the Authority will maintain the requisite Internet communication link between the Seller, the solar systems, and the Internet to facilitate this monitoring service.

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THE REVENUES

Set forth in Table A below are the estimated Revenues of the Systems for the term of the Bonds, based on delivery and sale of electrical energy to the Districts under the PSAs, as projected by the Seller. See "THE SYSTEMS – The Power Sales Agreements." Accordingly, the estimated Revenues set forth in Table A are projected at levels higher than the minimum levels set forth in the Performance Guarantees (see "– Performance Guarantee Agreements" below). There is no assurance that the assumptions or that the actual performance of the Systems reflected below will materialize as projected. Further, the Authority cannot guarantee that it will receive PBI revenues from SCE or under the CSI as expected. See "BONDOWNERS' RISKS – Performance Based Incentives."

TABLE A
ESTIMATED REVENUES AND PBIs GENERATED BY THE SYSTEMS
(Assumes Revenues Per Seller Projections and Above Performance Guarantee Minimum)

Year Ended Dec 31	Lancaster School District		Eastside Union School District		Total Estimated PSA and PBI Revenues
	PSA Revenue (1)	PBI Revenue (2)	PSA Revenue (1)	PBI Revenue (2)	
2012	\$ 1,227,453.78	\$1,365,432.60	\$ 399,550.28	\$ 247,996.73	\$ 3,240,433.39
2013	1,264,062.59	1,358,605.44	411,466.87	246,756.74	3,280,891.64
2014	1,301,763.26	1,351,812.41	423,738.87	245,522.96	3,322,837.50
2015	1,340,588.34	1,345,053.35	436,376.88	244,295.35	3,366,313.92
2016	1,380,571.39	1,338,328.08	449,391.82	243,073.87	3,411,365.17
2017	1,421,746.93	-	462,794.93	-	1,884,541.87
2018	1,464,150.54	-	476,597.79	-	1,940,748.33
2019	1,507,818.83	-	490,812.32	-	1,998,631.15
2020	1,552,789.52	-	505,450.80	-	2,058,240.32
2021	1,599,101.47	-	520,525.87	-	2,119,627.34
2022	1,646,794.67	-	536,050.55	-	2,182,845.23
2023	1,695,910.32	-	552,038.26	-	2,247,948.58
2024	1,746,490.85	-	568,502.80	-	2,314,993.65
2025	1,798,579.94	-	585,458.40	-	2,384,038.34
2026	1,852,222.58	-	602,919.70	-	2,455,142.28
2027	1,907,465.12	-	620,901.78	-	2,528,366.90
2028	1,964,355.27	-	639,420.17	-	2,603,775.44
2029	2,022,942.17	-	658,490.88	-	2,681,433.04
2030	2,083,276.42	-	678,130.37	-	2,761,406.78
2031	2,145,410.13	-	698,355.61	-	2,843,765.74
2032	2,209,396.99	-	719,184.06	-	2,928,581.05
2033	2,275,292.26	-	740,633.73	-	3,015,925.98
2034	2,343,152.85	-	762,723.13	-	3,105,875.98
2035	2,413,037.38	-	785,471.35	-	3,198,508.73
2036	2,485,006.22	-	808,898.03	-	3,293,904.25
Total	\$44,649,379.83	\$6,759,231.88	\$14,533,885.25	\$1,227,645.65	\$67,170,142.60

(1) Projected Revenues pursuant to the respective District's PSA and is based on \$0.125 per kWh for Lancaster School District, not including the Systems located at Mariposa and Discovery sites, \$0.165 per kWh for Mariposa and Discovery Systems, and \$0.145 per kWh for Eastside Union School District, each with a 3.5% annual escalator. See "THE SYSTEMS – The Solar Power Sales Agreements."

(2) Projected revenues based on PBIs payable under the CSI at projected rates of \$0.15 per kWh for Lancaster School District, not including Mariposa and Discovery Schools, \$0.05 for Mariposa and Discovery Schools and \$0.09 for Eastside Union School District. See "THE SYSTEMS – Performance Based Incentives" and "BONDOWNERS' RISKS – Performance Based Incentives."

Source: SolarCity.

Performance Guarantee Agreements

Pursuant to (a) a Performance Guarantee Agreement, dated _____, 2011, between the Authority and the Seller with respect to the Lancaster School District Systems (the "Lancaster SD Performance Guarantee") and (b) a Performance Guarantee Agreement, dated _____, 2011, between the Authority and the Seller with respect to the Eastside Union School District Systems (the "Eastside USD Performance Guarantee"; and together with the Lancaster SD Performance Guarantee, the "Performance Guarantees"), the Seller guarantees that during the term of the related PSAs, the applicable Systems in aggregate will generate a guaranteed annual kWhs of energy equivalent to 85% of the Systems' expected annual kWh output.

The schedule of guaranteed annual kWhs of energy in each Performance Guarantee incorporates a projected decrease 1/2 of 1% per year, due to gradual loss of System efficiency. A 10-year manufacturer performance warranty, obtained and provided by the Seller for the benefit of the Authority, also protects the Authority against degradation of electrical generation output of more than 15% from their originally rated electrical output. See "THE SYSTEM – Warranties" herein.

Payment under the Performance Guarantees is provided as follows:

1) If, at the end of each successive twenty-four (24) month anniversary of the date that 100% of the applicable Systems achieve permission to operate from SCE, the cumulative Actual Annual kWh (as defined in the Performance Guarantees) generated by the applicable Systems in aggregate is *less* than a certain specified Guaranteed Annual kWh, the Seller will send the Authority a refund check equal to the difference between the Guaranteed Annual kWh and the cumulative Actual Annual kWh multiplied by the Guaranteed Energy Price per kWh (defined below). The Seller will make that payment within thirty (30) days after the end of the relevant calendar year.

2) If, at the end of each successive twenty-four (24) month anniversary of the date that 100% of the applicable Systems achieve permission to operate from SCE, the Actual Annual kWh is *greater* than a certain specified Guaranteed Annual kWh during any twenty-four (24) month period, this surplus will be carried over and will be used to offset any deficits that may occur in the future.

As defined in the Lancaster SD Performance Guarantee, "Guaranteed Energy Price per kWh" means (i) \$0.125 per kWh with an annual increase of three and a half percent (3.5%), not including the Systems located on the Mariposa and Discovery sites, and (ii) with respect to the Systems located on the Mariposa and Discovery sites, \$0.165 per kWh with an annual increase of three and a half percent (3.5%).

As defined in the Eastside USD Performance Guarantee, "Guaranteed Energy Price per kWh" means \$0.145 per kWh with an annual increase of three and a half percent (3.5%).

Although the Authority has secured the Performance Guarantees from the Seller, the Authority cannot predict whether unknown future events may adversely affect the Seller's ability to make payment to the extent necessary under the Performance Guarantees. Should the Seller not be able to make payment to the extent provided under the Performance Guarantees for whatever reason, the Trust Agreement and the Lease Agreement provide that the Lease Payments are payable from Revenues generated from the System, or to the extent necessary, from the City's General Fund. See "SECURITY FOR THE BONDS – General" and "BONDOWNERS' RISKS – City General Fund."

Set forth in the Table B below are the guaranteed kWhs as set forth in the Performance Guarantees and estimated Revenues generated by the Systems based on such guaranteed kWhs. Although the Authority has secured the Performance Guarantees from the Seller (see "THE REVENUES – Performance Guarantee Agreements" herein), the Authority cannot predict whether unknown future events may adversely affect the Seller's ability to make payment to the extent necessary under the Performance Guarantees, and there is no assurance that the assumptions or that the actual performance of the Systems reflected below will materialize as projected. Further, the Authority cannot guarantee that it will receive PBI revenues from SCE or under the CSI as expected. See "BONDOWNERS' RISKS – Performance Based Incentives."

TABLE B
ESTIMATED REVENUES AND PBIs GENERATED BY THE SYSTEMS
(Assumes Performance Guarantee Revenues)

Year	Lancaster School District		Eastside Union School District		Total
	Guaranteed kWh (1)	PSA and PBI Revenues (2)	Guaranteed kWh (1)	PSA and PBI Revenues (2)	Estimated PSA and PBI Revenues
2012	8,149,096.20	\$ 2,203,953.42	617,467.20	\$ 550,414.96	\$ 2,754,368.38
2013	8,108,350.72	2,229,267.82	614,379.86	559,490.07	2,788,757.90
2014	8,067,808.97	2,255,539.32	611,307.96	568,872.56	2,824,411.87
2015	8,027,469.92	2,282,795.44	608,251.42	578,571.39	2,861,366.83
2016	7,987,332.57	2,311,064.55	605,210.17	588,595.84	2,899,660.39
2017	7,947,395.91	1,208,484.89	602,184.12	393,375.69	1,601,860.59
2018	7,907,658.93	1,244,527.96	599,173.20	405,108.12	1,649,636.08
2019	7,868,120.63	1,281,646.00	596,177.33	417,190.47	1,698,836.48
2020	7,828,780.03	1,319,871.09	593,196.44	429,633.18	1,749,504.27
2021	7,789,636.13	1,359,236.25	590,230.46	442,446.99	1,801,683.24
2022	7,750,687.95	1,399,775.47	587,279.31	455,642.97	1,855,418.44
2023	7,711,934.51	1,441,523.77	584,342.91	469,232.52	1,910,756.30
2024	7,673,374.84	1,484,517.22	581,421.20	483,227.38	1,967,744.60
2025	7,635,007.96	1,528,792.95	578,514.09	497,639.64	2,026,432.59
2026	7,596,832.92	1,574,389.20	575,621.52	512,481.74	2,086,870.94
2027	7,558,848.76	1,621,345.35	572,743.41	527,766.51	2,149,111.86
2028	7,521,054.52	1,669,701.98	569,879.70	543,507.15	2,213,209.12
2029	7,483,449.24	1,719,500.84	567,030.30	559,717.25	2,279,218.09
2030	7,446,032.00	1,770,784.95	564,195.15	576,410.81	2,347,195.77
2031	7,408,801.84	1,823,598.61	561,374.17	593,602.27	2,417,200.88
2032	7,371,757.83	1,877,987.44	558,567.30	611,306.45	2,489,293.90
2033	7,334,899.04	1,933,998.42	555,774.46	629,538.67	2,563,537.09
2034	7,298,224.54	1,991,679.92	552,995.59	648,314.66	2,639,994.58
2035	7,261,733.42	2,051,081.78	550,230.61	667,650.64	2,718,732.42
2036	7,225,424.75	2,112,255.29	547,479.46	687,563.32	2,799,818.61
Total	<u>\$191,959,714.12</u>	<u>\$43,697,319.95</u>	<u>\$14,545,027.36</u>	<u>\$13,397,301.26</u>	<u>\$57,094,621.21</u>

- (1) Guaranteed kWh specified in the Performance Guarantees based on 85% of expected production.
(2) Projected revenues include both Revenues from PSAs and PBI revenues and are based on guaranteed kWh production specified in the Performance Guarantees, calculated at PSA and PBI rates discussed under "THE REVENUES – Performance Guarantee Agreements" and "THE SYSTEMS – Performance Based Incentives," respectively.

Debt Service Coverage

Set forth below is the estimated debt service coverage of the Bonds using the estimated total revenues from Table A (Assumes Revenues Per Seller Projections) and Table B (Assumes Performance Guarantee Revenues), above.

ESTIMATED DEBT SERVICE COVERAGE

Year Ended Dec 31	Assumes Revenues Per Seller Projections			Assumes Performance Guarantee Revenues		
	Total Estimated PSA and PBI Revenue (1)	Debt Service*(2)	Coverage*	Total Estimated PSA and PBI Revenue (3)	Debt Service*(2)	Coverage*
2012	\$3,240,433	\$ 1,009,981	3.21x	\$ 2,754,368	\$ 1,009,981	2.73x
2013	3,280,892	1,800,626	1.82x	2,788,758	1,800,626	1.55x
2014	3,322,837	1,822,126	1.82x	2,824,412	1,822,126	1.55x
2015	3,366,314	1,847,926	1.82x	2,861,367	1,847,926	1.55x
2016	3,411,365	1,870,426	1.82x	2,899,660	1,870,426	1.55x
2017	1,884,542	1,421,576	1.33x	1,601,861	1,421,576	1.13x
2018	1,940,748	1,465,476	1.32x	1,649,636	1,465,476	1.13x
2019	1,998,631	1,510,601	1.32x	1,698,836	1,510,601	1.12x
2020	2,058,240	1,551,201	1.33x	1,749,504	1,551,201	1.13x
2021	2,119,627	1,599,401	1.33x	1,801,683	1,599,401	1.13x
2022	2,182,845	1,644,801	1.33x	1,855,418	1,644,801	1.13x
2023	2,247,949	1,693,291	1.33x	1,910,756	1,693,291	1.13x
2024	2,314,994	1,743,101	1.33x	1,967,745	1,743,101	1.13x
2025	2,384,038	1,794,001	1.33x	2,026,433	1,794,001	1.13x
2026	2,455,142	1,845,761	1.33x	2,086,871	1,845,761	1.13x
2027	2,528,367	1,903,151	1.33x	2,149,112	1,903,151	1.13x
2028	2,603,775	1,959,001	1.33x	2,213,209	1,959,001	1.13x
2029	2,681,433	2,014,626	1.33x	2,279,218	2,014,626	1.13x
2030	2,761,407	2,074,789	1.33x	2,347,196	2,074,789	1.13x
2031	2,843,766	2,134,014	1.33x	2,417,201	2,134,014	1.13x
2032	2,928,581	2,197,064	1.33x	2,489,294	2,197,064	1.13x
2033	3,015,926	2,260,824	1.33x	2,563,537	2,260,824	1.13x
2034	3,105,876	2,327,234	1.33x	2,639,995	2,327,234	1.13x
2035	3,198,509	2,395,804	1.34x	2,718,732	2,395,804	1.13x
2036	3,293,904	2,422,694	1.36x	2,799,819	2,422,694	1.16x
Total	\$67,170,143	\$46,309,496		\$57,094,621	\$46,309,496	

* Preliminary; subject to change.

(1) Total Estimated PSA and PBI Revenues from Table A herein.

(2) Debt service is net of debt service reserve fund earnings.

(3) Total Estimated PSA and PBI Revenues from Table B herein.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside front cover of this Official Statement. The Bonds will be issued in authorized denominations of \$5,000 or integral multiples thereof and will be dated their date of delivery. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on May 1 and November 1 of each year, commencing May 1, 2012 (each an "Interest Payment Date"), until maturity or earlier redemption thereof.

The Bonds will be initially delivered as one fully registered certificate for each maturity (unless the Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and will be delivered by means of the book-entry system of DTC. See "Book-Entry Only System" below.

Redemption

Optional Redemption. The Bonds maturing before November 1, 2021 are not subject to redemption prior to maturity. The Bonds maturing on or after November 1, 2022 are subject to redemption prior to maturity in whole, or in part in the manner determined by the Authority, on any date, from any available source of funds, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed) as follows, together with accrued interest thereon to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
November 1, 2021 and thereafter	100%

Mandatory Term Bond Redemption.* The Bonds maturing on November 1, 2026, November 1, 2031 and November 1, 2036 are subject to mandatory redemption, by lot, in the principal amounts hereinafter set forth, without premium, on November 1 of each year, commencing on November 1, 2022, November 1, 2027 and November 1, 2032 respectively, from the principal portion of the Lease Payments required to be on deposit in the Lease Payment Account on the Lease Payment Date immediately prior to November 1 in each of the years and in the amounts as follows:

<u>2026 Term Bonds</u>	
<u>Year</u>	<u>Amount</u>
2022	\$ 685,000
2023	765,000
2024	850,000
2025	940,000
2026 (Maturity)	1,035,000

* Preliminary; subject to change.

2031 Term Bonds

Year	Amount
2027	\$1,140,000
2028	1,250,000
2029	1,365,000
2030	1,490,000
2031 (Maturity)	1,620,000

2036 Term Bonds

Year	Amount
2032	\$1,760,000
2033	1,910,000
2034	2,070,000
2035	2,240,000
2036 (Maturity)	2,420,000

Extraordinary Redemption. The Bonds are subject to redemption in whole or in part, without premium, on any date in the principal amount thereof, together with accrued interest to the date fixed for redemption, upon the occurrence of damage, destruction or condemnation of the Property, or any portion thereof, which results in (i) Net Insurance Proceeds remaining after the repair, restoration, or replacement of the Property pursuant to the Lease Agreement or (ii) the City's election to apply the Net Insurance Proceeds to the redemption of all or a portion of the Bonds pursuant to the Lease Agreement.

Notice of Redemption. The Trustee will, at the expense of the City, give notice of the redemption of any Bonds, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds are to be redeemed, the letters and numbers of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice will also specify the respective portions of the principal amount thereof to be redeemed. Such notice will further state that on such date there will become due and payable upon each Bond to be redeemed the principal amount to be redeemed, together with interest accrued to the redemption date, and that from and after such date interest on the principal amount redeemed will cease to accrue and be payable. The Trustee will mail a copy of such notice, postage prepaid, by first class United States mail, not less than 30 and not more than 60 days prior to the redemption date, to the Bondowners of any Bonds or portions of Bonds which are to be redeemed, at their addresses as the same appear upon the registry books, but neither the failure of a Bondowner to receive such notice nor any immaterial defect therein will affect the validity of the proceedings for the redemption of Bonds.

Selection of Bonds for Redemption. If less than all of the Bonds of a single maturity are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected by the Trustee by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. The portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. Unless the City directs the Trustee in writing as to any other method of redemption, whenever provisions are made for the redemption of Bonds in part, the Bonds to be redeemed will be redeemed from each maturity, with the mandatory redemption schedule set forth above to be adjusted accordingly, in order to maintain substantially the same proportionate amount of annual principal payments with respect to the remaining maturities of the Bonds as existed prior to redemption.

Effect of Redemption. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof to be redeemed together with interest to the redemption date shall be held by the Trustee so as to be available therefore on said date, and if notice of redemption shall have been given to the Owners as provided in the Trust Agreement, then from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable.

Mutilated, Lost, Destroyed or Stolen Bonds

In case any Bond is mutilated, destroyed, stolen or lost, the Trustee will authenticate and deliver a new Bond of like maturity and principal amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond, or in lieu of and substitution for such Bond, upon receipt by the Trustee of evidence satisfactory to the Trustee that such Bond has been mutilated, destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Trustee with indemnity satisfactory to the Trustee and complying with such other regulations as the Trustee may prescribe and paying such expenses as the Trustee may incur.

Book-Entry Only System

The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX D – DTC'S BOOK-ENTRY ONLY SYSTEM."

In the event that such book-entry system is discontinued with respect to the Bonds, the Authority will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: The principal of, and redemption premium, if any, on the Bonds will be payable on the surrender thereof at maturity or the redemption date, as applicable, at the corporate trust office of the Trustee in Seattle, Washington. The interest on the Bonds will be payable by check or draft mailed by first class mail on each Interest Payment Date to the registered owners thereof as shown on the registration books of the Trustee as of the close of business on the Record Date (*i.e.*, the 15th calendar day of the month preceding the Interest Payment Date); provided, that a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds may specify in writing to the Trustee on or before the applicable Record Date that the interest payment payable on each succeeding Interest Payment Date be made by wire transfer.

SECURITY FOR THE BONDS

General

The Authority and the City will enter into a Lease Agreement, pursuant to which the Authority will lease the Property to the City. As security for the Bonds, the Authority will assign to the Trustee all of its rights, title and interest in the Lease Agreement (with certain exceptions) for the benefit of the Bondowners, including the right to receive Lease Payments to be made by the City under the Lease Agreement. Amounts of the scheduled Lease Payments are calculated to be sufficient to pay debt service on the Bonds. Lease Payments will be paid by the City to the Trustee, as annual rental for the use and possession of the Property, on each Lease Payment Date. As defined in the Trust Agreement and the Lease Agreement, "Lease Payment Date" means the 15th day of the month preceding each Interest Payment Date (or if the 15th day of the month is not a Business Day, on the next succeeding Business Day).

The Bonds are payable from the income of and proceeds from the Trust Estate. As defined in the Trust Agreement, "Trust Estate" means all right, title and interest of the Trustee in and to the Lease Payments payable by the City pursuant to the Lease Agreement, together with the Revenues and all other amounts from time to time deposited in accordance with the Trust Agreement. As defined in the Trust Agreement and the Lease Agreement, "Revenues" means (a) the amounts payable to the Authority pursuant to each of the PSAs (see "THE SYSTEMS – The Power Sales Agreements" herein), (b) PBIs paid to the Authority (see "THE SYSTEMS – Performance Based Incentives"), and (c) amounts payable to the Authority pursuant to the Performance Guarantees (see "THE REVENUES – Performance Guarantee Agreements")

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its proposed annual budget and its final adopted annual budget and to make the necessary appropriations for any amount of Lease Payments and Additional Payments to be paid therefore. The obligation of the City to pay Lease Payments and Additional Payments under the Lease Agreement will constitute a current expense of the City payable from the City's General Fund, or if such monies are insufficient therefore, from any other legally available funds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE TRUST AGREEMENT. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Obligations and Parity Obligations

Provided the City is not currently in default under the Lease Agreement, the City may incur additional obligations payable from the City's General Fund. Such Additional Obligations and Parity Obligations would increase debt service payable from the City's General Fund and could adversely affect debt service coverage with respect to the Lease Payments.

Insurance

Abatement. The Lease Agreement provides that the obligation of the City to pay Lease Payments and Additional Payments will be abated during any period in which, by reason of material damage or destruction to, or condemnation of, the Property or any portion thereof, or

defects in title to the Property, there is substantial interference with the use and possession by the City of all or such portion of the Property.

Such abatement shall be in an amount such that the resulting Lease Payments and Additional Payments in any year during which such interference continues do not exceed the fair rental value of the portions of the Property as to which such damage, destruction, condemnation or title defects do not substantially interfere with the City's use and possession, as evidenced by a certificate of a City representative. Such abatement will continue for the period commencing with the date of such interference and ending with the restoration of the Property to tenantable condition. Except as provided in the Lease Agreement, in the event of such damage, destruction or taking, the Lease Agreement and Additional Payments will continue in full force and effect, and the City waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or taking. *The City will obtain title insurance on the Property in connection with the issuance of the Bonds.* See also "BONDOWNERS' RISKS – Abatement" and "– Risk of Uninsured Loss."

Liability Insurance. The City shall procure (or cause to be procured) and maintain (or cause to be maintained), throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies, naming as additional insureds the Authority, the Trustee, and their directors, officers, agents and employees, insuring against all direct or contingent loss or liability for damages for bodily injury, death or property damage occasioned by reason of the use or operation of the Property, in the form of a combined single limit policy in the minimum amount of \$10,000,000. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

Rental Interruption Insurance. The City shall maintain or cause to be maintained rental interruption insurance for the benefit of the Authority and the Trustee in an amount not less than the scheduled Lease Payments in the next succeeding 18 month period during the term of the Lease Agreement, to insure against loss of rental income to the Authority caused fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as "extended coverage," excluding flood and earthquake. Such insurance shall be obtained not later than the Delivery Date for the Bonds and shall be increased as required in connection with each issue of Additional Bonds.

Workers Compensation Insurance. The City will at all times comply with the workers' compensation insurance laws of the State of California to the extent applicable to the City.

Self-Insurance. As an alternative to providing the insurance required above, the City may provide a self-insurance method or plan of protection (but only from a special fund of the City or other source for which the General Fund of the City is not in any fashion obligated nor to which the City is otherwise obligated to make payments), covering one or all of the insurance coverages required to be provided above, so long as (i) such self-insurance method or plan of protection shall afford reasonable protection to the Authority and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by counties in the State other than the City, (ii) the City shall have provided evidence to the Authority and the Trustee that the City has segregated amounts in a special insurance reserve meeting the requirements of the Lease Agreement, and (iii) in the reasonable opinion of the City's risk manager or a reputable independent insurance consultant, such self-insurance is maintained at an actuarially sound level for the purpose of the Lease Agreement.

Reserve Account

The Trust Agreement provides that the Trustee will establish and maintain a Reserve Account. Except as otherwise expressly provided in the Trust Agreement, all money in the Reserve Account will be used by the Trustee for the purpose of replenishing the Lease Payment Account in the event there shall be less than the amount required for the interest or principal payable with respect to the Bonds on an Interest Payment Date, or providing for the payment of the final Lease Payment in which event the Trustee will transfer all amounts on deposit in the Reserve Account to the Lease Payment Account on such Lease Payment Date.

Pursuant to the Trust Agreement, immediately after issuance of the Bonds, the amount deposited in (or credited to) the Reserve Account will equal the initial Reserve Requirement. The "Reserve Requirement" is, as of any calculation date, an amount equal to the lesser of (i) Maximum Annual Debt Service on the Bonds, (ii) 10% of the net proceeds of the Bonds, or (iii) 125% of the Annual Debt Service on all Bonds Outstanding. Ten (10) days prior to each Lease Payment Date, the Trustee will deposit moneys in the Reserve Account in such amount as may be necessary to maintain a balance therein equal to the Reserve Requirement.

Substitution of Property

Pursuant to the Lease Agreement, the Property may be substituted, in whole or in part, by other properties, at the option of the City, upon satisfaction of certain conditions, including, among others: (i) such substitution does not, in the opinion of Bond Counsel, adversely affect the tax-exempt status of the Bonds; (ii) the City certifies to the Authority and the Trustee that the fair rental value of the substituted property is at least equal to the Lease Payments each year for the remaining term of the Lease Agreement; (iii) the City has been advised by the rating agencies then rating the Bonds that such substitution will not, in and of itself, result in a reduction of such ratings on the Bonds; (iv) in the event that the substituted property consists in whole or in part of real property, a California Land Title Association insurance policy (or, at the City's sole discretion, an American Land Title Association insurance policy) on the substituted property has been obtained and evidence that any existing title insurance with respect to the portion of the Property remaining after such substitution is not affected; (v) prior to any such substitution the City shall furnish the following: (1) an MAI fair market appraisal demonstrating that the value of the substituted property is at least equal to the portion of the Property released; (2) a Certificate of Authorized Representative of the City that the useful life of the substituted property meets or exceeds the remaining term of the Bonds; (3) a Certificate of Authorized Representative of the City, that the essentiality of the substituted property is comparable to that of the portion of the Property released; and (4) evidence that, other than Permitted Encumbrances, no prior liens exist as to the substituted property; and (vi) the parties to the Lease Agreement shall amend the Lease Agreement (and any "short form" or "Memorandum of Lease Agreement" recorded pursuant to the Trust Agreement) to properly reflect such substitution.

Termination of Lease Agreement

Pursuant to the Trust Agreement, from and after the date that the Authority files with the Trustee a Certificate of the Authority accompanied by a report of an Independent Financial Consultant stating that Revenues have been equal to or greater than 125% of Maximum Annual Debt Service for each of the three previous Bond Years and that there are no known circumstances which would cause the Revenues to be reduced, the City and the Authority may terminate the Lease Agreement, and the Trustee will execute all documents necessary to release the lien of the Trust Agreement or the Lease Agreement [on the Lease Payments].

THE CITY

General

The City is located in the County of Los Angeles approximately 60 miles northeast of the City of Los Angeles in the southwest portion of the Antelope Valley between the City of Palmdale and Edwards Air Force Base. The City was incorporated on November 22, 1977 and, on April 13, 2010, voters approved Measure C, which grants the City its Charter City status. The mayor and city council are elected at large. The City is at an elevation of 2,356 feet and experiences a dry climate. The average annual rainfall is 1.29 inches per year and the average temperature is 62 degrees.

City Government

The City maintains a council-manager form of government, with the Mayor and Councilmembers elected at-large for four-year terms. As the City's legislative and policy entity, the Mayor and four Councilmembers are responsible to the residents of Lancaster for all municipal programs and services as well as any legislative matters concerning the City. The Council approves and adopts ordinances, resolutions and contracts, and enacts regulations and policies. It appoints the City Manager and City Attorney. The Mayor, with the approval of the Council appoints members of Commissions and citizen advisory committees that provide broad perspective in the decision-making process.

Current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
R. Rex Parris, Mayor	April 2012
Ronald D. Smith, Vice Mayor	April 2014
Marvin E. Crist, Councilmember	April 2014
Sandra Johnson, Councilmember	April 2012
Ken Mann, Councilmember	April 2012

The following are brief biographies of the City Manger, the Finance Director and the Deputy City Manager.

Mark Bozigian, City Manager. Mark Bozigian has been with the City of Lancaster for almost 16 years, the last four years as City Manager. Prior to that, he served as Assistant City Manager, Redevelopment Director, Assistant to the City Manager, and Transportation Programs Coordinator. In total, Mr. Bozigian has been in the public sector for approximately 19 years. Mr. Bozigian's primary areas of emphasis have been public safety, economic development, redevelopment, transportation, neighborhood revitalization, budgeting, government relations, and grant funding. Prior to his employment with the City, Mr. Bozigian was employed by the Los Angeles County Metropolitan Transportation Authority (MTA) for three years in the Capital Planning and Programming Department. In that time, he directed many MTA programs including the MTA Call for Systems competitive grants program. During his last year at the MTA, he was the Director of the Authority's Long Range Financial Planning section.

Prior to his work in the public sector, Mr. Bozigian worked for 12 years in the private sector. He began his professional career at Hughes Aircraft Company. During his ten years at Hughes Aircraft, he held various management positions including that of Business Manager for two laser production programs. Mr. Bozigian also has experience as a realtor and as a partner in

a small business and holds both a Bachelors and Masters Degree in Business Administration from Loyola Marymount University.

Jason Caudle, Deputy City Manager. Jason Caudle began his service as Deputy City Manager for the City in November of 2008. He also serves the Authority as Assistant Executive Director. Mr. Caudle has 17 years of local government experience – he served five years as a Field Representative for a Kern County Supervisor and served 10 years as the City Manager for the City of Tehachapi. Prior to joining Lancaster, Mr. Caudle served as a Vice President of Public Sector Finance for Kinsell, Newcomb, and De Dios, a broker-dealer specializing in municipal bonds. Mr. Caudle holds a bachelor's degree in Political Science and a master's degree in Public Policy and Administration from the California State University at Bakersfield and is a Licensed General Securities Representative.

Barbara Boswell, Finance Director. Barbara A. Boswell is the Finance Director for the City. The Finance Director is appointed by the City Manager. Ms. Boswell has been the Finance Director of the City from April 2005 to present. Ms. Boswell has 18 years experience in municipal government, holding various positions in the finance area, and 13 years experience in the private sector, primarily in telecommunications. She holds a bachelor's degree in Business Administration from Woodbury University, Burbank California and holds a master's degree in Public Administration from California State University, Dominguez Hills.

Population

The following sets forth the City of Lancaster population estimates from 2002 to 2011:

**Table 1
City of Lancaster
Estimated Population**

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
2002	124,574	2007	148,231
2003	128,362	2008	151,181
2004	132,388	2009	153,613
2005	137,268	2010	155,920
2006	142,417	2011	157,795

Source: State Department of Finance, Demographic Research Unit, estimate as of January 1 of each year.

The following sets forth County of Los Angeles and State of California population estimates from 2002 to 2011:

Table 2
Los Angeles County and State of California
Estimated Population

Year (January 1)	Los Angeles County	State of California
2002	9,679,212	34,725,516
2003	9,756,914	35,163,609
2004	9,806,944	35,570,847
2005	9,816,153	35,869,173
2006	9,798,609	36,116,202
2007	9,780,808	36,399,676
2008	9,785,474	36,704,375
2009	9,801,096	36,966,713
2010	9,822,121	37,223,900
2011	9,858,989	37,510,766

Source: State Department of Finance, Demographic Research Unit, estimate as of January 1 of each year.

Commercial Activity

The number of establishments selling merchandise subject to sales tax in the City and the valuation of taxable transactions is presented in the following table.

Table 3
City of Lancaster
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Taxable Transactions in Thousands of Dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
1999	1,017	895,739	2,486	1,063,829
2000	1,124	960,764	2,525	1,127,976
2001	1,156	991,654	2,535	1,162,627
2002	1,192	1,027,992	2,492	1,207,748
2003	1,231	1,128,128	2,601	1,363,056
2004	1,284	1,246,611	2,658	1,555,519
2005	1,380	1,410,676	2,749	1,721,806
2006	1,401	1,471,202	2,778	1,807,977
2007	1,475	1,369,416	2,870	1,690,948
2008	1,455	1,149,823	2,814	1,494,749
2009	1,592	976,089	2,437	1,291,013
2010 (1)	1,714	482,312	2,577	640,252

(1) Through second quarter, 2010.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

City's Assessed Valuation

The following table shows the history of the City's assessed valuation of taxable property.

**Table 4
City of Lancaster
Citywide Assessed Value (In Thousands)
Last Ten Fiscal Years**

Fiscal Year End	Residential Property	Commercial Property	Industrial Property	Other Property	Unsecured Property	Less Tax-Exempt Property	Taxable Assessed Value
2000-01	\$2,923,848	\$ 548,350	\$173,036	-	-	\$ 40,149	\$ 4,394,525
2001-02	3,143,908	562,683	180,292	-	-	43,730	4,688,974
2002-03	3,478,433	582,389	188,857	-	-	40,205	5,048,813
2003-04	3,863,600	629,063	206,041	-	-	37,510	5,564,640
2004-05	4,341,543	652,927	236,132	-	-	47,337	6,202,361
2005-06	5,303,606	724,251	272,579	-	-	48,414	7,494,593
2006-07	7,050,667	811,066	325,832	-	-	48,518	9,685,762
2007-08	8,747,825	939,776	348,343	-	-	49,979	11,727,911
2008-09	8,738,102	1,033,552	362,733	-	-	53,844	11,777,155
2009-10	6,770,835	1,249,510	497,261	\$1,310,426	-	392,871	9,828,032

Source: Los Angeles County Auditor data, MuniServices, LLC

The following table shows the City's assessed valuation of taxable property by use code for Fiscal Year 2009-2010.

**Table 5
City of Lancaster
Assessed Value of Property by Use Code
Fiscal Year 2009-10**

Category	2009-10
Residential	\$6,770,835,340
Industrial	497,261,450
Commercial	1,249,509,720
Institutional	74,991,868
Unclassified	77,985,906
Vacant	1,117,699,624
Recreational	31,977,902
Government	825,349
Miscellaneous	1,267,299
Agriculture	2,679,846
Transportation	2,997,859
Gross Secured Value	\$9,828,032,163

Source: Los Angeles County Auditor data, MuniServices, LLC

Tax Rates

The following is a five-year summary of the direct and overlapping property tax rates of the City.

**Table 6
City of Lancaster
Direct and Overlapping Property Tax Rates
Last Five Fiscal Years**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Basic City and County Levy					
General	1.000000	1.000000	1.000000	1.000000	1.000000
Total	1.000000	1.000000	1.000000	1.000000	1.000000
Los Angeles County	0.000800	0.000660	0.000000	0.000000	0.000000
Antelope Valley High District	0.022660	0.019960	0.019080	0.020950	0.024211
Westside School District	0.103650	0.084540	0.084880	0.093740	0.022823
Community College	0.016300	0.029050	0.009830	0.016820	0.024595
Water	0.070500	0.070490	0.070490	0.070490	0.070490
Total	0.213910	0.204700	0.184280	0.202000	0.142119
Total Tax Rate	1.213910	1.204700	1.184280	1.202000	1.142119

Source: Los Angeles County Auditor data, MuniServices, LLC

Employment

The City is included in the Los Angeles County Metropolitan Statistical Area. The distribution of employment in Los Angeles County labor market is as follows:

Table 7
Los Angeles County Labor Market Area
Employment by Industry

	Los Angeles County Labor Market Area			
	2008	2009	2010	2011 (1)
Agriculture	6,900	6,200	6,400	6,500
Natural Resources and Mining/Logging	4,400	4,100	4,200	4,200
Construction	145,200	116,500	104,300	98,600
Manufacturing	434,500	389,200	374,200	375,800
Trade, Transportation and Utilities	803,300	742,500	738,400	732,500
Information	210,300	193,700	192,400	205,000
Financial Activities	235,700	220,200	209,200	206,800
Professional and Business Services	582,600	528,100	526,100	523,900
Educational and Health Services	503,400	513,900	522,700	521,400
Leisure and Hospitality	401,600	383,900	384,600	391,500
Other Services	146,100	137,900	136,300	132,400
Government	603,700	599,500	576,600	542,300
Total, All Industries (2)	4,077,600	3,835,600	3,775,300	3,740,900
Total Civilian Labor Force (3)	4,972,000	4,896,100	4,879,500	4,863,400
Total Unemployment	373,800	567,500	617,200	615,500
Unemployment Rate	7.5%	11.6%	12.6%	12.7%

(1) Through August, 2011.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

(3) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

Source: State Employment Development Department, Labor Market Information Division.

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The City serves as a primary commercial center of the Antelope Valley. The table below lists the largest employers in the Antelope Valley area. Major private employers in the area include those in the military, health care, education, and retail industries. Major public sector employers include the County.

**Table 8
Antelope Valley
Largest Employers
2010**

<u>Company</u>	<u>Number of Employees</u>
Edwards Air Force Base	10,610
China Lake Naval Weapons	6,734
County of Los Angeles	3,953
Lockheed Martin Co.	3,100
Palmdale School District	2,739
Antelope Valley Hospital	2,722
Northrop-Grumman	2,611
Antelope Valley Union High School District	2,054
California Correctional	1,911
Wal-Mart (5 stores)	1,821

Source: Greater Antelope Valley Economic Alliance Economic Roundtable Report 2010.

The following table shows certain employment statistics for the City, the County, and the State for calendar years 2003 through July, 2011:

**Table 9
City of Lancaster
City, County and Statewide Employment Statistics (1)**

<u>Year</u>	<u>City</u>		<u>Unemployment Rate</u>	<u>County</u>	<u>State</u>
	<u>Labor Force</u>	<u>Employed</u>		<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2003	53,800	48,400	10.0%	7.0%	6.8%
2004	53,700	48,700	9.3	6.5	6.2
2005	54,000	49,800	7.7	5.3	5.4
2006	54,200	50,500	6.9	4.8	4.9
2007	55,000	51,000	7.3	5.1	5.4
2008	56,300	50,300	10.7	7.5	7.2
2009	56,500	47,400	16.2	11.6	11.4
2010	56,800	46,800	17.6	12.6	12.3
2011 (2)	56,500	46,100	18.4	13.3	12.4

(1) Not Seasonally adjusted. Figures represent the 12-month average for each such year.

(2) Through July, 2011.

Source: State of California, Employment Development Department.

Building and Construction

The following is a four-year summary of the valuation of residential building permits issued in the City.

**Table 10
City of Lancaster
Building Permit Valuation**

Residential	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>
New Single-Dwelling	\$42,822,515	\$36,510,555	\$58,272,395	\$27,440,990
New Multi-Dwelling	<u>8,789,177</u>	<u>10,440,777</u>	<u>0</u>	<u>0</u>
Total Residential	<u>\$51,611,692</u>	<u>\$46,951,332</u>	<u>\$58,272,395</u>	<u>\$27,440,990</u>
 No. of New Dwelling Units				
Single-Dwelling	296	187	277	117
Multi-Dwelling	<u>144</u>	<u>80</u>	<u>0</u>	<u>0</u>
Total Units	<u>440</u>	<u>267</u>	<u>277</u>	<u>117</u>

(1) Through August, 2011.
Source: U.S. Census Bureau.

CITY FINANCIAL INFORMATION

Budgetary Process; General Fund Budget

The annual budget adopted by the City Council provides for the general operation of the City. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the Fiscal Year. Appropriations lapse at Fiscal Year-end. The City Council generally reauthorizes appropriations for continuing projects and activities. The City Council has the legal authority to amend the budget of any fund at any time during the Fiscal Year. The budgetary level of control (the level on which expenditures may not legally exceed appropriations) is generally at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

The following table shows the City's final budget and actual results for General Fund revenues and expenditures for Fiscal Years 2009-10 and 2010-11, as well as the City's budget for Fiscal Year 2011-12.

Table 11
City of Lancaster
General Fund Budget Summary
Fiscal Years 2009-10 through 2011-12

	FY 09-10 Final Budget	FY 09-10 Audited Actual	FY 10-11 Final Budget	FY 10-11 Unaudited Actual	FY 11-12 Final Budget
Budgetary Fund Balance, July 1	\$ 86,184,043	\$86,184,043	\$ 69,390,191	\$76,668,663	\$64,142,574
Resources (Inflows):					
Taxes	\$ 33,599,680	\$34,250,302	\$ 34,554,835	\$ 35,958,546	\$34,744,370
Licenses and permits	331,715	247,325	673,400	662,550	946,875
Intergovernmental	1,075,445	1,752,580	855,000	849,220	974,180
Charges for services	2,866,570	2,991,482	3,167,355	3,432,809	3,516,060
Use of money and property	678,935	223,315	390,000	79,632	1,285,000
Fines and forfeitures	1,444,090	1,732,201	1,766,245	1,513,561	1,582,185
Miscellaneous	3,350,175	1,771,878	3,890,300	577,967	769,000
Transfers in	6,717,340	5,078,543	6,940,795	6,561,942	7,475,450
Amounts Available for Appropriation	<u>\$136,247,993</u>	<u>\$134,231,669</u>	<u>\$121,628,121</u>	<u>\$126,304,890</u>	<u>\$115,435,694</u>
Charges to Appropriation (Outflow):					
General government	\$ 12,448,390	\$11,193,090	\$ 11,553,814	\$ 11,982,636	\$ 7,881,030
Public safety	25,818,442	24,517,930	25,167,287	24,545,007	24,997,995
Community development	3,498,068	3,710,607	4,065,812	3,386,130	2,978,590
Parks and recreation	11,520,719	10,955,976	11,840,219	10,472,522	11,137,005
Public works	3,754,349	3,103,777	4,253,743	3,389,649	3,911,555
Transfers out	9,817,834	4,081,626	15,088,836	8,386,372	1,041,230
Total Charges to Appropriations	<u>\$ 66,857,802</u>	<u>\$57,563,006</u>	<u>\$ 71,969,711</u>	<u>\$62,162,316</u>	<u>\$51,947,405</u>
Budgetary Fund Balance, June 30	<u>\$ 69,390,191</u>	<u>\$76,668,663</u>	<u>\$ 49,658,410</u>	<u>\$ 64,142,574</u>	<u>\$63,488,289</u>

Financial Statements

Set forth in the following pages are the City's General Fund balance sheets and statements of revenues, expenditures and changes in General Fund Balance for Fiscal Years 2007-08 through 2009-10, based on the City's audited financial statements, as well as the City's unaudited financial information for 2010-11. The balance sheets and statements presented in this Official Statement are subject to the various notes attached to the City's audited financial statements for the respective years. Excerpts of the City's Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010, which includes the City's 2009-10 audited financial statements, are set forth in APPENDIX E. A complete copy of the City's Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010, as well as the reports for the prior years, can be obtained from the City's Finance Department.

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("GASB") published its Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, these should include the following:

- Management's Discussion and Analysis (introducing the basic financial statements and providing an analytical overview of the government's financial activities);
- Basic financial statements including (i) government-wide financial statements prepared using the economic resources measurement focus and the accrual basis of accounting; (ii) fund financial statements, which may include (A) governmental fund financial statements, prepared using the current financial resources measurement focus and the modified accrual method of accounting, (B) proprietary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting, and (C) fiduciary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting; and (iii) notes to the financial statements; and
- Required supplementary information.

Table 12
City of Lancaster
General Fund Balance Sheets
Fiscal Years 2007-08 through 2010-11

	2008	2009	2010	Unaudited 2011
Assets:				
Pooled cash and investments	\$ 38,101,037	\$ 33,302,663	\$ 22,646,803	\$21,637,331
Receivables:				
Accounts	1,323,954	1,353,929	610,096	1,583,065
Taxes	3,734,606	3,371,094	4,184,388	3,642,890
Notes and loans				
Accrued interest	155,744	211,365	96,225	115,628
Prepaid costs	83,792	221,882	51,277	335,641
Deposits				
Due from other governments	137,118	130,056	2,240,528	793,857
Due from other funds	7,293,048	6,057,043	7,970,342	
Advances to other funds	98,785,974	99,365,388	100,051,474	75,253,491
Inventories	38,439	44,225	29,200	50,428
Land held for resale				14,482,945
Total Assets	\$149,653,712	\$144,057,645	\$137,880,333	\$117,895,276
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 5,578,188	\$ 3,992,537	\$ 4,347,227	5,809,943
Accrued liabilities	582,193	372,109	655,753	548,622
Deferred revenues	47,679,948	49,479,654	53,160,140	51,761,855
Unearned revenues	274,089	218,382	115,518	239,124
Deposits payable	3,703,006	2,715,066	2,933,032	1,603,623
Developer reimbursements				
Total Liabilities	\$ 57,817,424	\$ 56,777,748	\$ 61,211,670	\$59,963,167
Fund Balances:				
Reserved:				
Reserved for encumbrances	\$ 2,890,136	\$ 1,807,437	\$ 413,690	390,150
Reserved for prepaid costs	83,792	221,882	51,277	326,941
Reserved for advances to other funds	51,501,615	50,387,709	50,229,441	49,947,259
Reserved for inventories	38,439	44,225	29,200	50,428
Reserved for land held for resale				14,482,945
Unreserved:				
Designated for debt service				
Designated for legal claims	3,030,207	1,066,419	1,184,922	364,032
Designated for employee benefits	2,384,885	4,385,028	2,353,894	1,884,199
Designated for emergency repairs	108,081	108,081	108,081	108,081
Designated for building replacement	563,813	503,028	553,028	409,348
Designated for general liabilities	100,000			
Designated for Technology Infrastructure				2,277,536
Designated for capital facilities	400,000	400,000	308,321	308,321
Designated for non-recurring events	250,000			
Designated for vision 2020	400,000	400,000	400,000	400,000
Designated for strong neighborhoods	500,000	3,333,855	2,941,688	
Designated for capital projects	2,600,000			
Undesignated	26,985,320	24,622,233	18,095,121	(13,017,131)
Total Fund Balances	\$ 91,836,288	\$ 87,279,897	\$ 76,668,663	\$57,932,109
Total Liabilities and Fund Balances	\$149,653,712	\$144,057,645	\$137,880,333	\$117,895,276

Source: City of Lancaster Comprehensive Annual Financial Reports for Fiscal Years 2007-08 through 2009-10. Unaudited numbers for Fiscal Year 2010-11 provided by the City.

Table 13
City of Lancaster
Statements of Revenues, Expenditures and Changes in General Fund Balance
Fiscal Years 2007-08 through 2010-11

	2008	2009	2010	Unaudited 2011
Revenues:				
Taxes	\$44,554,992	\$40,642,872	\$34,250,302	\$35,958,546
Licenses and permits	720,849	384,161	247,325	662,550
Intergovernmental	1,537,070	1,730,924	1,752,580	849,220
Charges for services	2,986,825	2,883,663	2,991,482	3,432,809
Use of money and property	1,312,166	1,570,971	223,315	79,632
Fines and forfeitures	2,090,717	1,635,425	1,732,201	1,513,561
Miscellaneous	1,740,446	3,572,755	1,771,878	577,967
Total Revenues	\$54,943,065	\$52,420,771	\$42,969,083	\$43,074,285
Expenditures:				
Current:				
General government	12,295,540	13,595,763	11,193,090	11,982,636
Public safety	21,826,335	24,082,162	24,517,930	24,545,007
Community development	3,782,233	3,579,447	3,710,607	3,386,130
Parks and recreation	11,869,017	11,847,542	10,955,976	10,472,522
Public works	5,220,649	4,995,015	3,103,777	3,389,649
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal chargers	-	-	-	-
Total Expenditures	\$54,993,774	\$58,099,929	\$53,481,380	\$53,775,944
Excess (Deficiency) of Revenues Over (Under) Expenditures	(50,709)	(5,679,158)	(10,512,297)	(10,701,659)
Other Financing Sources (Uses):				
Transfers in	5,885,660	4,412,887	5,078,543	6,561,942
Transfers out	(10,785,637)	(2,109,857)	(4,081,626)	(8,386,372)
Total Other Financing Sources (Uses)	(\$ 4,899,977)	\$ 2,303,030	\$ 996,917	(\$1,824,430)
Net Change in Fund Balances	(4,950,686)	(3,376,128)	(9,515,380)	(12,526,089)
Fund Balances, Beginning of Year, as previously reported	96,006,284	91,836,288	87,279,897	76,668,663
Restatements	780,690	(1,180,263)	(1,095,854)	(6,210,465)
Fund Balances, Beginning of Year, as restated	96,786,974	90,656,025	86,184,043	70,458,198
Fund Balances, End of Year	\$91,836,288	\$87,279,897	\$76,668,663	\$57,932,109

Source: City of Lancaster Comprehensive Annual Financial Reports for Fiscal Years 2007-08 through 2009-10. Unaudited numbers for Fiscal Year 2010-11 provided by the City.

Pension Plans

The City of Lancaster contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

Participants are required to contribute 7.00% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 10.07% for miscellaneous employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Table 14
City of Lancaster
Three-Year Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (asset)</u>
6/30/2008	\$2,707,503	96%	\$(4,398,909)
6/30/2009	3,104,105	96%	(4,289,983)
6/30/2010	3,118,435	96%	(4,172,616)

Source: City of Lancaster Comprehensive Annual Financial Report for Fiscal Year 2009-10.

The City contributes to the Public Agency Retirement System (PARS), which is a defined contribution retirement plan. A defined contribution retirement plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the plan, all eligible employees of the City will become a participant in the plan from the date they are hired. An eligible employee is any employee who, at any time during which the employer maintains this plan, is not accruing a benefit under the Public Employees Retirement System.

Contributions made by an employee and the employer vest immediately. As determined by the plan, each employee contributes 0% of gross earnings to the plan. The City contributes an additional 6% of gross earnings. During the year ended June 30, 2010, the City contributed \$1,083,186 (6% of covered) and employees contributed \$0 (0% of current year covered payroll). The total covered payroll of employees participating in the plan for the year ended June 30, 2010, was \$18,053,101. The total payroll for the year was \$21,044,110. No changes in plan provisions occurred during the year. The plan held no securities of the City or other related parties during or at the close of the Fiscal Year.

Other Post-Employment Benefits Other Than Pensions

The City provides other postemployment benefits (OPEB) through a single-employer defined benefit healthcare plan by contributing a portion of premiums charged under the health benefit plan for all eligible employees. These benefits are provided per contract between the City and the employee associations. A separate financial report is not available for the plan.

The contribution requirements of plan members and the City are established and may be amended by the City, City Council, and/or employee associations. Currently, contributions are not required from plan members. A contribution of \$280,848 was made during the 2010-2011 Fiscal Year and was not included in the June 30, 2009, actuarial study. The purpose of the contribution was to pay current year premiums for retirees.

The contribution rate of 25.4% is based on the ARC of \$4,819,000, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the annual normal cost and the amortization of unfunded actuarial liabilities (or funding excess) over a thirty year period.

Top Taxpayers

The following table sets forth the City of Lancaster's top ten taxpayers for Fiscal Year 2010-11:

**Table 15
City of Lancaster
Top Ten Taxpayers**

Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Basrock	\$ 105,309,643	1.25%
Walmart	51,915,946	0.74%
Avenue K Lancaster UCM Cadence	46,529,500	0.55%
US Industrial Reit II	45,284,000	0.54%
Thrifty Payless Inc.	34,181,804	0.41%
Bank of America NA	30,717,025	0.38%
BPP Valley Central	28,304,740	0.34%
Kaiser Foundation	27,906,232	0.33%
Syigma Network Inc.	20,910,507	0.30%
K Partners Lancaster II LP	23,251,094	0.28%
Top Ten Total	<u>\$ 408,735,167</u>	<u>5.13%</u>
City Total	<u>\$8,069,753,843</u>	<u>5.07%</u>

Source: City of Lancaster.

Deposits and Investments

The City of Lancaster maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments. At June 30, 2011, the City's total cash and investments were \$85,858,048.

Deposits. At June 30, 2010, the carrying amount of the City's deposits was \$1,777,723 and the bank balance was \$4,802,444. The \$3,024,721 difference represents outstanding checks and other reconciling items. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also follows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency. Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Demand Deposits
- Banker's Acceptances
- Local Agency Investment Fund (State Pool)
- Passbook Savings Accounts
- United States Treasury Securities

Investments Authorized by Debt Agreements. The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

Investments in State Investment Pool. The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31. The City adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk. The City's investment policy limits investments in medium term notes (MTNs) to those rated AA- or better by a nationally recognized statistical rating organization. At June 30, 2010, the City invested in various MTNs which were rated AA- or better by Standard & Poor's (S&P). At June 30, 2010 the City's investments with Federal Agency securities and money market mutual funds were rated AAA by S&P. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2010, the City's investments in external investment pools are unrated. The City has amounts invested in investment agreements held with fiscal agents and invested under the direction of the City.

As of June 30, 2011, the City's fiscal agent investments agreements consisted of investments with various corporations that were within acceptable investment grade ranges allowed by the City's investment policy under the direction of the City. As of June 30, 2011, the City's fiscal agent investments agreements consisted of investments with various corporations that were within acceptable investment grade ranges allowed by the City's investment policy.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk. The City's investment policy imposes restrictions on the maximum percentage it can invest in a single type of investment. These limitations are 25% of the City's invested funds for non-negotiable certificates of deposit, 15% of the City's invested funds for banker acceptances with no more than 2% in any one issuer, 25% of the City's invested funds for commercial paper with no more than 10% in any one issuer, 10% of the City's invested funds for medium term notes, and 20% of the City's invested funds for money market funds with no more than 10% in any one issuer. In accordance with GASB Statement No. 40, if the City has invested more than 5% of its total investments in any one issuer then it is exposed to credit risk. As of June 30, 2011, the City's investment in the following issuers exceeded 5%:

Federal National Mortgage Association \$5,493,598
Federal Home Loan Bank \$10,096,988
Federal Home Loan Mortgage Corporation \$11,410,145
Federal Farm Credit Bank \$8,042,365
U.S. Treasury Note \$3,504,570

Interest Rate Risk. The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that investments in United States Treasury Securities and securities for which the full faith and credit of the United States is pledged should have a maturity no longer than five years. Reserve funds relating to the bonds issues may be invested in securities for more than five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City handled those risks with the purchase of commercial insurance. The City maintained liability insurance coverage up to a limit of \$15,000,000 with \$250,000 self-insurance retention for its general liabilities. Workers' compensation insurance is provided by Southern California Risk Management Associates, with statutory limit coverage. The City also maintained property coverage including earthquake and flood.

At June 30, 2011, \$1,037,000 has been accrued for general liability claims. This amount represents an estimate of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2011, is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses.

THE AUTHORITY

The Lancaster Power Authority was established pursuant to a Joint Exercise of Powers Agreement dated March 8, 2011, by and among the City, the Lancaster Redevelopment Agency (the "Agency") and the Lancaster Housing Authority in accordance with the provisions of Articles 1, 2 and 4 of the Joint Exercise of Powers Act (Chapter 5 of Division 7 of Title 1 of the California Government Code) and Section 9 of Article 11 of the California Constitution. The Authority was created for the purpose of establishing, owning, and operating a municipal gas and electric utility for the benefit of the residents of the City, and customers, business and property owners in the City or to be served by the Authority.

Members of the Board of Directors of the Authority and their terms of office are shown below:

<u>Name and Office</u>	<u>Current Term Expires</u>
R. Rex Parris, Chair	April 2012
Ronald D. Smith, Vice-Chair	April 2014
Marvin E. Crist, Director	April 2014
Sandra Johnson, Director	April 2012
Ken Mann, Director	April 2012

Authority Administration

Mark Bozigian, serves as Executive Director of the Authority. Please refer to "THE CITY – City Government" for a brief biography of Mr. Bozigian.

Jason Caudle, serves as Assistant Executive Director of the Authority. Please refer to "THE CITY – City Government" for a brief biography of Mr. Caudle.

Barbara Boswell, serves as Treasurer of the Authority. Please refer to "THE CITY – City Government" for a brief biography of Ms. Boswell.

Financial and Redevelopment Consultant

Urban Futures, Incorporated ("Urban Futures"), formed in the early 1970s, provides services in the area of planning, redevelopment and finance to both governmental and private sector clients.

Urban Futures is currently engaged in consulting services for a number of cities and redevelopment agencies in the State. Over the past ten years, Urban Futures has completed planning, economic and financial advisory assignments for over 125 clients.

Urban Futures has acted as Financial Advisor to the Authority concerning the Bonds. As Financial Advisor, Urban Futures will receive compensation contingent upon the sale and delivery of the Bonds.

BONDOWNERS' RISKS

Investment in the Bonds involves elements of risk. The following section describes certain specific risk factors affecting the payment and security of the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order of discussion of such risks does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors not discussed under this caption will not become material in the future.

Limited Obligations with Respect to the Bonds

The Bonds are limited obligations of the Authority payable from Lease Payments payable by the City under the Lease Agreement. Lease Payments are payable from the Revenues, interest earnings on the Funds and Accounts held by the Trustee and, to the extent necessary, from the City's General Fund. If for any of the reasons described herein, or for any other reason, the Lease Payments are not sufficient to pay debt service on the Bonds, the City will be obligated to utilize money on deposit in the Reserve Account and certain other amounts on deposit in the Funds and Accounts established under the Trust Agreement. The obligation of the City to pay Lease Payments and Additional Payments under the Lease Agreement also constitutes a current expense of the City payable from the General Fund of the City, or any other legally available funds.

The Authority has no taxing power. The obligation of the City to pay Lease Payments and Additional Payments under the Lease Agreement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make Lease Payments under the Lease Agreement does not constitute a debt or indebtedness of the City, the Authority, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitations.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments and Additional Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement as a separate line item in its annual budget and to make necessary annual appropriations for all such Lease Payments. The

City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

[additional risk disclosure regarding Revenue obligations (if Lease Agreement is released per release test) to come]

Abatement

The obligation of the City under the Lease Agreement to pay Lease Payments and Additional Payments is in consideration for the use and possession of the Property. Except to the extent of (i) the Revenues and amounts held by the Trustee in the Lease Payment Account or in the Reserve Fund, (ii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, (iii) proceeds from rental interruption insurance to pay the portion of the Lease Payments that would otherwise be abated; and (iv) amounts available in the City's General Fund, the obligation of the City to pay Lease Payments and Additional Payments due under the Lease Agreement shall be abated in accordance with the Lease Agreement during any period in which, by reason of material damage or destruction to, or condemnation of, the System or any portion thereof, or defects in title to the Property, there is substantial interference with the use and possession by the City of all or such portion of the Property.

The Lease Agreement provides that the amount of abatement will be such that the resulting rental payments in any Bond Year during which such interference continues, excluding any amounts described in clauses (i), (ii) or (iii) above, do not exceed the fair rental value of the portions of the System as to which such damage, destruction, condemnation or title defects do not substantially interfere with the City's use and possession, as evidenced by a certificate of a City representative. Such abatement will continue for the period commencing with the date of such interference and ending with the restoration of the Property to tenantable condition. Except as provided in the Lease Agreement, in the event of such damage, destruction or taking, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or taking. *The City will obtain title insurance on the Property in connection with the issuance of the Bonds.* See "SECURITY FOR THE BONDS – Abatement; Insurance."

Risk of Uninsured Loss

The Lease Agreement obligates the City to procure and maintain throughout the term of the Lease Agreement, various forms of insurance, to assure repair or replacement of the Property in the event of damage or destruction to the Property. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy required to be procured and maintained by the Lease Agreement. Certain risks, such as damage from earthquakes, may not be covered by such property insurance.

In the event the Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Lease Payments will be partially or completely abated. Apart from the Net Insurance Proceeds, the City will have no obligation to expend any funds to repair or replace such damaged or destroyed property. If any property so damaged or destroyed is not repair or replaced within the period during which the amounts in the Reserve Fund are available, any such abatement could prevent the City from making timely Lease Payments.

City General Fund

In General. The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of, and taxes and other governmental charges levied against, the Property) are payable from funds lawfully available to the City. If the amounts which the City is obligated to pay in a Fiscal Year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the City. See "CITY FINANCIAL INFORMATION" for a more detailed discussion of revenues deposited in and expenditures from the City's General Fund. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare. For more information regarding California Constitutional limits on expenditures see "LIMITATIONS ON REVENUES AND APPROPRIATIONS – Appropriations Limitations: Article XIII B."

Risk of Increased Expenditures. Under the Lease Agreement, provided the City is not currently in default thereunder, the City is permitted to expend for any municipal purpose or otherwise incur other evidences of indebtedness or other obligations payable from the City's General Fund without the consent of Owners of the Bonds. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments could decrease. See Table 13 under the caption "CITY FINANCIAL INFORMATION – Financial Statements" for information regarding General Fund expenditures for Fiscal Years 2007-08 through 2010-11.

Risk of Decreased Revenues. A variety of national, state or regional factors, which are beyond the control of the City's fiscal policies, as well as the City's fiscal policies could reduce the amount of the City's General Fund revenues. To the extent that City revenues decrease, the funds available to pay Lease Payments could decrease. See Table 13 under the caption "CITY FINANCIAL INFORMATION – Financial Statements" for information regarding General Fund revenues for Fiscal Years 2007-08 through 2010-11.

State Finances

The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. As discussed in further detail under the caption "STATE FINANCIAL INFORMATION," the State's proposed 2010-11 budget contains a number of measures which may impact the City's finances.

Performance Based Incentives

As discussed above under "THE SYSTEMS – Performance Based Incentives," the Authority will be eligible to receive PBIs under the CSI. These incentives are based on the amount of solar energy produced by the Systems for a period of five years from the date the photovoltaic systems first produce energy.

Under the CSI, participating utilities pay photovoltaic system owners or operators a set dollar amount for each kilowatt hour generated for the first five (5) years of a solar electric system's operation. The Program Administrator for the region in which the City is located is SCE. The incentive payments under the CSI program are derived from a surcharge imposed on

utility customers in California by the local utilities and the payment of these incentives is not subject to the State of California's budget process. For solar projects with a system larger than 50 kW, PBIs are monthly payments for 5 years based on actual performance (output) of the system as measured by a separate performance meter. SCE's goal is to provide incentives for 805 MW of the total 1,940 MW statewide goal. As of September 2011, SCE had provided (or has reserved) incentives for a total of 374 MW of solar installations.

Upon completion of each System, the Authority will submit "Incentive Claims" and other materials necessary to qualify for incentive payments under the Program. Although the Authority expects that SCE's confirm such filing as sufficient under the program, the Authority cannot guarantee receipt of PBIs from SCE or under the CSI. If SCE does not confirm the Authority's Incentive Claims filing as sufficient or there are insufficient PBIs remaining under the CSI at the time of the Authority seeks to claim PBIs related to the Systems, or for any reason PBIs are not available to the Authority as expected, PBI revenues will not be available to be deposited to the Lease Payment Account or to be applied as a credit against Lease Payments securing the Bonds. Should PBI revenues not be available to be applied to Lease Payments, the Trust Agreement and the Lease Agreement provide that the Lease Payments are payable from Revenues generated from the System, or to the extent necessary, from the City's General Fund. See "SECURITY FOR THE BONDS – General" and "BONDOWNERS' RISKS – City General Fund."

Other Financial Matters

Due to recent economic changes in the State and the United States, it is possible that the general revenues of the City will decline, particularly those based on tourism. Such a reduction in revenues may include, but may not be limited to, a decline in TOT and sales tax revenues. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Lease Payments. See "CITY FINANCIAL INFORMATION" herein.

Natural Calamities; Earthquakes; Flood Hazard Zone Designation

From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City which therefore may have a negative impact on City finances. Some portions of the City are located in a flood hazard zone. Minor street flooding has occurred in central portions of the City. The occurrence of any natural calamity, including but not limited to an earthquake, uncontrolled fire or a major flood, may result in the substantial interference with the use and occupancy of the Property, which could result in Lease Payments being subject to abatement. Under such circumstances, no assurance can be given that the City would have insurance or other resources available to make repairs to the Property or to make Lease Payments under the Lease Agreement.

Limited Recourse on Lease Agreement Default

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration of any Lease Payments which have not come due. The remedies provided for in the Lease Agreement include, in addition to all other remedies provided at law, the Authority taking possession of any portion of the Property if the City does not deliver possession of the Property to the Authority on demand, the Authority reletting the Property or, without terminating the Lease Agreement, collecting each installment of rent as it becomes due and holding the City liable therefor. If the Authority does not elect to terminate the Lease Agreement, the City shall remain liable for the payment of Lease Payments and Additional Payments and the performance of all conditions contained in the Lease Agreement.

The Lease Agreement permits the Trustee, as the Authority's assignee, to take possession of and re-let the Property in the event of a default by the City under the Lease Agreement. However, due to the fact that the Property serves essential governmental purposes, a court may determine to not permit such remedy to be exercised. Even if such remedy may be exercised, no assurance can be given that the Trustee could readily relet the Property for rents which are sufficient to enable it to pay debt service on the Bonds in full when due.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest and premium, if any, on the Bonds or to preserve the tax-exempt status of interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Trust Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Trust Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay in the exercise of, or limitations on or modifications to, the rights of the Owners.

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the Authority, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State.

Investment of Funds

The Reserve Account and all other funds held under the Trust Agreement are required to be invested in Investment Securities as provided under the Trust Agreement, respectively. See "APPENDIX C – SUMMARY OF THE LEGAL DOCUMENTS." All investments, including Investment Securities, authorized by law from time to time for investments by the Authority contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement could have a material adverse effect on the security for the Bonds.

Future Initiative and Legislation

As discussed herein under "LIMITATIONS ON REVENUES AND APPROPRIATIONS," California's Constitutional initiative process has resulted in the adoption of measures which pose certain limits on the ability of cities and local agencies to generate revenues, through property taxes or otherwise. From time to time, other initiative measures could be adopted, affecting the City's ability to generate revenues and to increase appropriations. No assurances can be given as to the potential impact of any future initiative or legislation on the finances and operations of the City.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority and the City have covenanted to comply with the applicable requirements of Section 148 and certain other sections of the Internal Revenue Code of 1986, as amended, relative to arbitrage and avoidance of characterization as private activity bonds, among other things. The interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds as a result of acts or omissions of the Authority and/or the City in violation of their covenants. Should such an event of taxability occur, the Bonds are not subject to acceleration, redemption or any increase in interest rates and will remain Outstanding until maturity or until redeemed under one of the redemption provisions contained in the Trust Agreement. See "TAX EXEMPTION."

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

LIMITATIONS ON REVENUES AND APPROPRIATIONS

There are a number of provisions in the State of California Constitution that limit the ability of the City to raise and expend revenues. Contained below is a description of some of these limitations. In addition to the ones discussed in this section below, other initiative measures could be adopted from time to time further affecting the City's revenues and finances.

Property Tax Limitations - Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly referred to as "Proposition 13" or the "Jarvis-Gann Initiative") to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors.

Article XIII A further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII was adopted in August 1986 by initiative that exempts from the one percent limitation any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

In the general election held on November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amended Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other minor or technical ways.

Article XIII A Implementing Legislation

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based on their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 Fiscal Year, assessors in California no longer record property values on tax rolls at the assessed value of 25 percent of market value, which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. Unless otherwise noted, all taxable property value included in this Official Statement (unless noted differently) is shown at 100 percent of market value and all tax rates reflect the \$1 per \$100 of taxable value.

Challenges to Article XIII A

California trial and appellate courts have upheld the constitutionality of Article XIII A's assessment rules in three significant cases. The United States Supreme Court, in an appeal to one of these cases, upheld the constitutionality of Article XIII A's tax assessment system. The Authority cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the City's receipt of property tax revenues should a future decision hold unconstitutional the method of assessing property.

Appropriations Limitations: Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the

annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior Fiscal Year, as adjusted annually for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriations limit is the 1978-79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Revenues received in excess of the appropriations limit must be returned by a revision of tax rates or fee schedules within the next two subsequent Fiscal Years.

Proposition 218: Article XIIC and Article XIID

On November 5, 1996, California voters approved Proposition 218, "the Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges.

The general financial condition of the City may be affected by provisions of Article XIIC and Article XIID. In particular, provisions of Article XIIC (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIID that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the provisions of Proposition 218 or the possible effects of Proposition 218. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 may impact the City's ability to make Lease Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 Fiscal Year, will be allocated as follows: (i) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

STATE FINANCIAL INFORMATION

The following information concerning the State's budget has been obtained from publicly available information which the Authority and the City believe to be reliable; however, the Authority and the City take no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the state budget is regularly available at various state-maintained Web sites. Text of the state budget may be found at the State Department of Finance Web site, www.govbud.dof.ca.gov under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past state budgets, may be found at the Web site of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective state agency maintaining each Web site and not by the Authority or the City, and the Authority and the City can take no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

The Budget Act of 2011, establishing the State Budget for its fiscal year 2011-12 (the "2011-12 State Budget") was signed by the Governor on June 30, 2011. The State's Summary of the 2011-12 State Budget states that the Budget Act of 2011 closes a \$26.6 billion budget gap and implements certain changes to address the State's long-term structural budget deficit. The 2011-12 State Budget relies on deep spending reductions, reducing expenditures by \$15.0 billion, and also includes a major realignment of public safety programs from the State to local governments. According to the State's Summary of the 2011-12 State Budget, features of the 2011-12 State Budget affecting local governments, including the City, include the following:

- ***Eliminate Funding for Williamson Act Subventions.*** The 2011-12 State Budget includes a decrease of \$10 million for this program, which partially backfills property tax revenues lost by local governments when they enter into voluntary contracts with landowners to assess property at a lower rate in exchange for the landowners' agreement to use the land only for agricultural or open space purposes.

- ***Redirection of Motor Vehicle License Fee (MVLFF) Revenues to Realignment.*** The 2011-12 State Budget includes State savings of \$153.4 million by shifting MVLFF revenues from cities and counties, and using it to fund public safety activities that have been realigned from the State to the counties. Of the shifted funds, \$105.6 million was previously distributed to cities and \$47.8 million comes specifically from Orange County. The latter funds were initially provided to repay debt issue by the Orange County in the wake of its 1994 bankruptcy.

- ***Voluntary Alternative Redevelopment Program.*** As described in more detail in the following paragraphs, the 2011-12 State Budget includes State savings of \$1.7 billion in 2011-12 associated with Assembly Bill 27 ("ABX1 27"), which allows redevelopment agencies to continue in operation provided their establishing cities or counties agree to make an aggregate \$1.7 billion in payments to K-12 schools. Redevelopment agencies whose establishing cities or counties do not agree to make these payments will shut down pursuant to Assembly Bill 26 ("ABX1 26"). If a redevelopment agency is shut down, any property tax remaining after its debt service payments and allowable administrative costs will be distributed to cities, counties, special districts and K-14 schools.

As described by the State Department of Finance, in a proposed or approved State budget there are generally changes that necessitate modifications to existing law in order to implement the budget changes. "Trailer bills" are separate bills introduced to implement these changes and are heard concurrently with the proposed budget bill.

Introduced as a pair of trailer bills, ABX1 26 and ABX1 27 of the 2011-12 First Extraordinary Session of the State Assembly were enacted on June 29, 2011. Together, ABX1 26 and ABX1 27 mandate each city or county that has a redevelopment agency to choose one of the following options: (i) make a payment (the "ABX1 27 Payment") each fiscal year to the county auditor-controller for deposit into the county's Special District Allocation Fund and Educational Revenue Augmentation Fund (ERAF) pursuant to ABX1 27, or (ii) subject the redevelopment agency to dissolution pursuant to ABX1 26. Pursuant to an ordinance adopted by the City Council of the City on April 2, 1979, the City established the Agency.

Under ABX1 27, if the City chooses to not subject the Agency to dissolution under ABX1 26, then the City may either (i) enact an ordinance (the "ABX1 27 Ordinance") on or before October 1, 2011 to make the ABX1 27 Payments, or (ii) adopt a non-binding resolution before October 1, 2011 indicating the City's intent to adopt the ABX1 27 Ordinance, and enact the ABX1 27 Ordinance by November 1, 2011. The amount of the ABX1 27 Payment for fiscal year 2011-12 will be determined by the State Director of Finance based on the methods prescribed in ABX1 27. The City may make an appeal regarding the amount of the ABX1 27 Payment determined by the State Director of Finance for fiscal year 2011-12, but the State Director of Finance has sole discretion to approve or reject the appeal, in whole or in part. The amount of the ABX1 27 Payment for fiscal year 2012-13 and beyond is determined by the City based on the methods prescribed in ABX1 27 and is subject to audit and verification and final determination by the County auditor-controller. ABX1 Payments for each fiscal year are due in two installments, on January 15 and May 15 of each year.

On August 11, 2011, the California Supreme Court announced it would hear a lawsuit filed by the California Redevelopment Association and the League of California Cities challenging the constitutionality of ABX1 26 and ABX1 27 (*California Redevelopment Association et al. v. Ana Matosantos, as Director, et al.*, Cal. S194861). The Court set a briefing schedule designed to facilitate oral argument as possible in 2011 and a decision before January 15, 2012 (the due date for the first installment of the fiscal year 2011-12 ABX1 Payment). Until it can rule on the constitutionality of these two bills, the Court also issued a partial stay suspending implementation of significant portions of ABX1 26 and all of ABX1 27, except for California Health and Safety Code Section 34194(b)(2), which requires the State Director of Finance to make calculations regarding the ABX1 27 Payments. In the event the Court upholds both ABX1 26 and ABX1 27, it is likely, but not certain, that the deadlines in the immediately preceding paragraph above will be extended.

With respect to the Agency, the State Director of Finance has determined the ABX1 27 Payment for fiscal year 2011-12 is \$14,254,892, which reflects the State's adjustment of the remittance amount after consideration of the Agency's appeal and is based on a state-wide amount for all redevelopment agencies of \$1.7 billion. The California Redevelopment Association has stated that, due to a number of factors, it is not able to calculate an estimated ABX1 27 Payment for fiscal year 2012-13, which is based on a state-wide amount for all redevelopment agencies of \$400 million plus additional payments to school districts in accordance with the method prescribed in ABX1 27.

If the City chooses to make the ABX1 27 Payment in any particular fiscal year, the City may enter into an agreement (an "ABX1 27 Reimbursement Agreement") with the Agency under which the Agency will promise to transfer tax increment derived from the Agency's redevelopment project area to the City in an amount not to exceed the ABX1 27 Payment for that fiscal year, for the purposes of financing activities within the Agency's redevelopment project area that are related to accomplishing the Agency's project goals. The Agency's payment obligations under any ABX1 27 Reimbursement Agreement would have to be subordinate to the outstanding Agency bonds having a first lien on the Agency's tax increment revenues or otherwise subject to the parity debt test set forth in the indentures governing such Agency bonds.

So long as the City continues to make ABX1 27 Payments, then the dissolution of the Agency under ABX1 26 would be suspended. If the City begins to make the ABX1 27 Payments but then fails to do so in a later year, then upon determination by the State Director of Finance, the Agency will be immediately subject to the dissolution requirements of ABX1 26. In the event of any such failure of the City to make an ABX1 27 Payment, ABX1 27 provides that the State would be entitled to an assignment of any rights of the City to any payments from the Agency to which the City is entitled, including without limitation payment due to the City under an ABX1 27 Reimbursement Agreement.

[to verify and update status of Lancaster's ABX1 26 and 27 actions . . . The City is currently evaluating its options under ABX1 27 and ABX1 26 and has not yet made a determination regarding whether or not to adopt an ABX1 27 Ordinance.]

Future Budgets and Actions

The Authority and the City cannot predict what actions will be taken in this or any future fiscal year by the State Legislature or the Governor to deal with the State's current or future budget deficits, changing State revenues and expenditures, what the effect of national and state economic conditions on future State budgets will be, or whether initiatives affecting local government revenues will be approved by the voters of the State later this year. Moreover, the State Legislature or Governor could take additional actions which could affect the State's receipts, expenditures and borrowings during the current fiscal year, and thereby influence the City's financial situation. Future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

ABSENCE OF LITIGATION

To the Authority's and the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Trust Agreement, the Lease Agreement or any proceedings of the City or the Authority with respect thereto. In the opinion of the Authority and its counsel, there is no lawsuit or claim pending against the Authority which will materially impair the Authority's ability to enter into the Trust Agreement. In the opinion of the City and the City Attorney, there is no lawsuit or claim pending against the City which will materially impair the City's ability to enter into the Lease Agreement or restrain or enjoin the payment of Lease Payments.

CONTINUING DISCLOSURE

The City and the Authority have undertaken for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the City and the Authority and other data by not later than February 15 after the close of each Fiscal Year, commencing February 15, 2012 with the report for the 2010-11 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and any notices of material events will be filed by the City or Urban Futures, Inc., as the Dissemination Agent on behalf of the City and the Authority, with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX A – FORM OF CONTINUING DISCLOSURE AGREEMENT." This undertaking has been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

A failure by the City or the Authority to comply with the provisions of the Continuing Disclosure Agreement is not an event of default under the Trust Agreement (although the holders and beneficial owners of the Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Agreement 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 the Bonds. Therefore, a failure by the City or the Authority to comply with the provisions of the Continuing Disclosure Agreement may adversely affect the marketability of the Bonds on the secondary market.

LEGAL OPINION

The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds and stating that interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is also exempt from personal income taxes of the State of California under present State income tax laws, will be furnished to the purchaser at the time of delivery of the Bonds at the expense of the Agency. Compensation for Bond Counsel's services is entirely contingent upon the sale and delivery of the Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the Bonds is attached hereto as APPENDIX B.

The legal opinion is only as to legality and is not intended to be nor is it to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Bonds.

In addition, certain legal matters will be passed on by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, as Disclosure Counsel.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount that accrues to the Owner of the Bonds is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain

representations of fact and certifications made by the City, the Authority and others and is subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the delivery of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Bonds. The Authority has covenanted to comply with all such requirements. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring after the date of delivery of the Bonds may affect the tax status of the interest on the Bonds.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions taken or events are taken or do occur. Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

FINANCIAL ADVISOR

Urban Futures, Inc. has acted as financial advisor to the Authority concerning the Bonds. As financial advisor, Urban Futures, Inc. will receive compensation contingent upon the sale and delivery of the Bonds.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (equal to the principal amount of the Bonds, less a net original issue discount of \$_____ and less an underwriter's discount of \$_____). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

RATING

Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies ("S&P"), has assigned an unsecured rating of "___" (outlook _____) to the Bonds. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Certain information was supplied by the Authority and the City to S&P to be considered in evaluating the Bonds. The rating expresses only the views of the rating agency and is not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of the rating

may be obtained from Standard & Poor's, a division of the McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041.

FINANCIAL STATEMENTS

Excerpts of the City's Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010, which include the City's 2009-10 financial statements and the Independent Auditor's Report issued by Lance, Soll & Lunghard, LLP, Certified Public Accountants, (the "Auditor") regarding such financial statements, are set forth in APPENDIX E. The Auditor was not requested to consent to the inclusion of its report in APPENDIX E and it has not undertaken to update financial statements included in APPENDIX E. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

MISCELLANEOUS

All of the preceding description and summaries of the Bonds, the Trust Agreement, the Lease Agreement, the SolarCity PPA, the PSAs, the Performance Guarantees, other applicable agreements, legislation and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Authority and the City have duly authorized the execution and delivery of this Official Statement by their duly authorized officers.

LANCASTER POWER AUTHORITY

By: _____
Executive Director

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APPENDIX A
FORM OF CONTINUING DISCLOSURE AGREEMENT
[to come]

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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APPENDIX C

SUMMARY OF THE LEGAL DOCUMENTS

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APPENDIX D

DTC'S BOOK-ENTRY ONLY SYSTEM

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APPENDIX E

**CITY OF LANCASTER
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDING JUNE 30, 2010 (EXCERPTS)**

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