

## REGULATORY DISCLOSURE REGARDING MUNICIPAL ADVISORY AGREEMENT

Hilltop Securities Inc. (“HilltopSecurities”), currently is engaged by City of Grand Prairie, Texas (the “Issuer”) to serve as its financial advisor or municipal advisor (hereinafter referred to as “municipal advisor”) under that certain Financial Advisory Agreement dated February 1, 2000 (the “Existing Municipal Advisory Agreement”). As of June 23, 2016, pursuant to Rule G-42 of the Municipal Securities Rulemaking Board (“MSRB”), all municipal advisors are required to evidence their municipal advisory relationships with their municipal entity clients by means of one or more written documents delivered to the client, which documentation is required to include certain specific terms, disclosures and other items of information. This Regulatory Disclosure Regarding Municipal Advisory Agreement (this “Disclosure”), together with the Existing Municipal Advisory Agreement and the accompanying disclosures, shall serve as the required written documentation of our municipal advisory relationship as required under MSRB Rule G-42.

To that end, this Disclosure reaffirms the following matters as set forth in the Existing Municipal Advisory Agreement in connection with General Obligation Refunding Bonds, Series 2019 and Combination Tax and Revenue Certificates of Obligation, Series 2019A and Combination Tax and Revenue Tax Notes, Series 2019 (Taxable) and Combination Tax and Revenue Certificates of Obligation Series 2019B (Taxable) (the “Transaction”):

### **1. *Scope of Services.***

(a) The scope of services with respect to HilltopSecurities’ engagement with the Issuer is as provided in the Existing Municipal Advisory Agreement (the “Municipal Advisory Services”). For purposes of this Disclosure, such Municipal Advisory Services, together with any services to be provided by HilltopSecurities as the Issuer’s independent registered municipal advisor (“IRMA”) as described in clause (b) below, is referred to as the “Scope of Services.”

(b) IRMA within the Scope of Municipal Advisory Services. Unless Issuer has designated an entity other than HilltopSecurities as its IRMA for purposes of Securities and Exchange Commission (“SEC”) Rule 15Ba1-1(d)(3)(vi) (the “IRMA exemption”), HilltopSecurities will treat such role as IRMA as within the scope of Municipal Advisory Services. Unless the Existing Municipal Advisory Agreement otherwise provides, HilltopSecurities will provide advice with regard to any recommendation made by a third party relying on the IRMA exemption only if the Issuer provides to HilltopSecurities written direction to provide advice with regard to such third-party recommendation as well as any information it has received from such third party, and HilltopSecurities may communicate with such third party as necessary or appropriate in order for HilltopSecurities to have the information it needs to provide informed advice to the Issuer with regard to such recommendation. Unless the Existing Municipal Advisory Agreement otherwise provides, HilltopSecurities will provide to the Issuer recommendations it receives directly from any third party but will not be required to provide advice to the Issuer with regard to any such recommendation unless the Issuer has provided to HilltopSecurities written direction to do so.

IRMA Outside the Scope of Municipal Advisory Services. HilltopSecurities views its duties as being strictly limited to the provision of advice to the Issuer with regard to such third-party recommendations on any aspects of the issuance of municipal securities or municipal financial products. HilltopSecurities will provide to the Issuer such recommendations it receives directly from any third party but will not be required to provide advice to the Issuer with regard to any such recommendations unless the Issuer has provided to HilltopSecurities written direction to do so.

Furthermore, HilltopSecurities is of the view that the provision of advice by HilltopSecurities to the Issuer with respect to matters involving third-party recommendations outside the scope of the Municipal Advisory Services shall not result in a change in scope of the Municipal Advisory Services. By way of example, if HilltopSecurities serves as municipal advisor for an issuance of municipal securities within the scope of Municipal Advisory Services but is asked to review a recommendation made by a third party with respect to a different issuance of municipal securities not within the scope of Municipal Advisory Services, any advice with respect to such review would not, by itself, cause such other issuance to come within the scope of Municipal Advisory Services, and HilltopSecurities would not be obligated to undertake any of the services within the scope of Municipal Advisory Services with regard to such issuance unless such scope of Municipal Advisory Services under the Existing Municipal Advisory Agreement is amended by the Issuer and HilltopSecurities.

(c) If and to the extent within the Scope of Services, HilltopSecurities is called upon, from time to time:

(i) to make recommendations to the Issuer or to review recommendations made by others to the Issuer, and in connection therewith to determine whether such recommendations are suitable for the Issuer, in order to fulfill its duties with respect to such recommendations and any associated suitability determinations, HilltopSecurities will be required under MSRB Rule G-42 to make reasonable inquiries of the Issuer as to the relevant facts. Such facts include, at a minimum, information regarding the Issuer's financial situation and needs, objectives, tax status, risk tolerance, liquidity needs, experience with municipal securities transactions or municipal financial products generally or of the type and complexity being recommended, financial capacity to withstand changes in market conditions during the term of the municipal financial product or the period that municipal securities to be issued in the municipal securities transaction are reasonably expected to be outstanding, and any other material information known by HilltopSecurities about the Issuer and the municipal securities transaction or municipal financial product. In addition, HilltopSecurities will be required to use reasonable diligence to know the essential facts about the Issuer and the authority of each person acting on behalf of the Issuer so as to effectively service HilltopSecurities' municipal advisory relationship with the Issuer, to act in accordance with any special directions from the Issuer, to understand the authority of each person acting on behalf of the Issuer, and to comply with applicable laws, regulations and rules.

Accordingly, the Issuer will be expected to provide information that it reasonably believes to be accurate and complete upon request to permit HilltopSecurities to fulfill its responsibilities under MSRB Rule G-42.

HilltopSecurities notes that the Issuer is not required to act in accordance with any advice or recommendation provided by HilltopSecurities to the Issuer.

(ii) to assist the Issuer in the preparation of its official statement in connection with the issuance of municipal securities, the Issuer will be expected to provide information that it reasonably believes to be accurate and complete upon request to HilltopSecurities to permit HilltopSecurities to fulfill its responsibility under MSRB Rule G-42.

(iii) to make representations and certifications with regard to certain aspects of matters pertaining to the Issuer, its municipal securities or municipal financial products arising as part of the Municipal Advisory Services to be provided pursuant to the Existing Municipal Advisory Agreement, the Issuer will be expected to provide information that it reasonably believes to be accurate and complete, upon request, to HilltopSecurities to permit HilltopSecurities to fulfill its responsibility under MSRB Rule G-42.

(d) The Scope of Services with respect to HilltopSecurities' engagement as municipal advisor is limited solely as provided in the Existing Municipal Advisory Agreement. HilltopSecurities serves as municipal advisor to the Issuer only with respect to the matters, and with respect to specific aspects of matters, within the Scope of Services, and that HilltopSecurities is not a municipal advisor to the Issuer with respect to matters expressly excluded from, or not within, the Scope of Services. HilltopSecurities' service as municipal advisor for one issuance of municipal securities will not result in HilltopSecurities being a municipal advisor to the Issuer for any other issuances of municipal securities if such other issuances are not within the Scope of Services.

**2. Term and Termination.** The term of HilltopSecurities' engagement as municipal advisor to the Issuer, and the terms on which the engagement may be terminated, is as provided in the Existing Municipal Advisory Agreement.

**3. Form and Basis of Compensation.** The form and basis of compensation for HilltopSecurities' services as municipal advisor to the Issuer are as provided in the Existing Municipal Advisory Agreement.

**4. Disclosure of Conflicts of Interest and Information Regarding Legal or Disciplinary Events.** Attached hereto is the Municipal Advisory Disclosure Statement, dated as of the date of this Disclosure, setting forth disclosures by HilltopSecurities of material conflicts of interest (the "Conflict Disclosures"), if any, and of any legal or disciplinary events required to be disclosed pursuant to MSRB Rule G-42(b) and (c)(ii). The Conflict Disclosures also describe how HilltopSecurities addresses or intends to manage or mitigate the disclosed conflicts of interest, as well as describing the specific type of information regarding, and the date of the last material change, if any, to the legal and disciplinary events required to be disclosed on Forms MA and MA-I filed by HilltopSecurities with the SEC.

**5. Disclosure of Material Risks.** Also attached hereto is the Disclosure of Material Risks (the "Risk Disclosures") setting forth disclosures by HilltopSecurities of the material financial risks associated with the issuance of municipal securities or municipal financial products within the then-current Scope of Services, known to or reasonably foreseeable to HilltopSecurities as of the date below. The Risk Disclosures may be supplemented by HilltopSecurities if the financial characteristics of the financing structure materially change as the Transaction progresses.

**HILLTOP SECURITIES, INC.**

By:   
Name: **James S. Sabonis**  
Title: **Managing Director**  
Date: **6/12/2019**

## MUNICIPAL ADVISOR DISCLOSURE STATEMENT

This disclosure statement (“Conflict Disclosures”) is provided by **Hilltop Securities Inc.** (“the Firm”) to you (the “Client”) in connection with our current municipal advisory agreement, (“the Agreement”). These Conflict Disclosures provide information regarding conflicts of interest and legal or disciplinary events of the Firm that are required to be disclosed to the Client pursuant to MSRB Rule G-42(b) and (c)(ii).

### **PART A – Disclosures of Conflicts of Interest**

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable.

***Material Conflicts of Interest*** – The Firm makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under the Agreement with the Firm, together with explanations of how the Firm addresses or intends to manage or mitigate each conflict.

***General Mitigations*** – As general mitigations of the Firm’s conflicts, with respect to all of the conflicts disclosed below, the Firm mitigates such conflicts through its adherence to its fiduciary duty to Client, which includes a duty of loyalty to Client in performing all municipal advisory activities for Client. This duty of loyalty obligates the Firm to deal honestly and with the utmost good faith with Client and to act in Client’s best interests without regard to the Firm’s financial or other interests. In addition, because the Firm is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of the Firm is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitability built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, the Firm’s municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of the Firm potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

**I. Affiliate Conflict.** The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm’s advisory activities within the Scope of Services outlined in the Agreement. Hilltop Securities Asset Management (HSAM), a SEC-registered affiliate of the Firm, provides post issuance services including arbitrage rebate and treasury management. The Firm’s arbitrage team verifies rebate and yield restrictions on the investments of bond proceeds on behalf of clients in order to meet IRS restrictions. The treasury management division performs portfolio management/advisor services on behalf of public sector clients. The Firm, through affiliate First Southwest Advisory, provides a multi-employer trust tailor-made for public entities which allows them to prefund Other Post-Employment Benefit liabilities. The Firm has a structured products desk that provides advice to help clients mitigate risk through investment management, debt management and commodity price risk management products. These products consist of but are not limited to swaps (interest rate, currency, commodity), options, repos, escrow structuring and other securities. Continuing Disclosure services provided by the Firm work with issuers to assist them in meeting disclosure requirements set forth in SEC rule 15c2-12. Services include but are not limited to ongoing maintenance of issuer compliance, automatic tracking of issuer’s annual filings and public notification of material events. The Firm administers two government investment pools for Texas governments; the Short-Term Asset Reserve Fund (TexSTAR) and the Local Government Investment Cooperative (LOGIC). These programs offer Texas government entities investment options for their cash management programs based on the entities specific needs. The Firm and

the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

**II. PlainsCapital Bank Affiliate Conflict.** The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities within the Scope of Services outlined in the Agreement. Affiliate, PlainsCapital Bank, provides banking services to municipalities including loans and custody. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

**III. Other Municipal Advisor or Underwriting Relationships.** The Firm serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of Client. For example, the Firm serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to Client. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, the Firm could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of the Firm to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that the Firm serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair the Firm's ability to fulfill its regulatory duties to Client.

**IV. Secondary Market Transactions in Client's Securities.** The Firm, in connection with its sales and trading activities, may take a principal position in securities, including securities of Client, and therefore the Firm could have interests in conflict with those of Client with respect to the value of Client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, the Firm or its affiliates may submit orders for and acquire Client's securities issued in an Issue under the Agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with Client in that it could create the incentive for the Firm to make recommendations to Client that could result in more advantageous pricing of Client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by the Firm to Client under this Agreement.

**V. Broker-Dealer and Investment Advisory Business.** The Firm is dually registered as a broker-dealer and an investment advisor that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities, including securities of Client, may be undertaken on

behalf of, or as counterparty to, Client, personnel of Client, and current or potential investors in the securities of Client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of Client, such as when their buying or selling of Client's securities may have an adverse effect on the market for Client's securities, and the interests of such other clients could create the incentive for the Firm to make recommendations to Client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from the firm effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by the Firm to Client.

**VI. Compensation-Based Conflicts.** Fees that are based on the size of the issue are contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for the Firm to recommend unnecessary financings or financings that are disadvantageous to Client, or to advise Client to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.

Fees based on a fixed amount are usually based upon an analysis by Client and the Firm of, among other things, the expected duration and complexity of the transaction and the Scope of Services to be performed by the Firm. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the Firm may suffer a loss. Thus, the Firm may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.

Hourly fees are calculated with, the aggregate amount equaling the number of hours worked by Firm personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if Client and the Firm do not agree on a reasonable maximum amount at the outset of the engagement, because the Firm does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.

**VII. Additional Conflicts Disclosures.**

In addition to serving as Municipal Advisor to the Issuer on the transaction, the Firm or an affiliate may be providing other services to the Issuer unrelated to the transaction or outside the scope of the Municipal Advisory Agreement and either will receive additional fees or may receive additional fees for such other services from the Issuer.

- The Firm provides continuing disclosure services/dissemination agent services either under a separate contract or under the municipal advisory fee structure.
- The Firm's affiliate, Hilltop Securities Asset Management, LLC, provides arbitrage rebate compliance services to the Issuer either under a separate contract or under the municipal advisory fee structure.
- The Issuer participates in a government pool for which the Firm receives fees for serving as co-administrator.
- The Firm provides broker/dealer services to the Issuer for which it receives transaction fees.

## **PART B – Disclosures of Information Regarding Legal Events and Disciplinary History**

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel.

Accordingly, the Firm sets out below required disclosures and related information in connection with such disclosures.

**I. Material Legal or Disciplinary Event :** The Firm discloses the following legal or disciplinary events that may be material to Client's evaluation of the Firm or the integrity of the Firm's management or advisory personnel:

- For related disciplinary actions please refer to the Firm's BrokerCheck webpage.
- The Firm self-reported violations of SEC Rule 15c2-12: Continuing Disclosure. The Firm settled with the SEC on February 2, 2016. The firm agreed to retain independent consultant and adopt the consultant's finding. Firm paid a fine of \$360,000.
- The Firm settled with the SEC in matters related to violations of MSRB Rules G-23(c), G-17 and SEC rule 15B(c) (1). The Firm disgorged fees of \$120,000 received as financial advisor on the deal, paid prejudgment interest of \$22,400.00 and a penalty of \$50,000.00.
- The Firm entered into a Settlement Agreement with Rhode Island Commerce Corporation. Under the Settlement Agreement, the firm agreed to pay \$16.0 million to settle any and all claims in connection with The Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bond (38 Studios, LLC Project) Series 2010, including the litigation thereto. The case, filed in 2012, arose out of a failed loan by Rhode Island Economic Development Corporation. The firm's predecessor company, First Southwest Company, LLC, was one of 14 defendants. HilltopSecurities's engagement was limited to advising on the structure, terms, and rating of the underlying bonds. Hilltop settled with no admission of liability or wrongdoing.
- On April 30, 2019, the Firm entered into a Settlement Agreement with Berkeley County School District of Berkeley County, South Carolina. The case, filed in March of 2019, arose in connection with certain bond transactions occurring from 2012 to 2014, for which former employees of Southwest Securities, Inc., a predecessor company, provided financial advisory services. The Firm agreed to disgorge all financial advisory fees related to such bond transactions, which amounted to \$822,966.47, to settle any and all claims, including litigation thereto. Under the Settlement Agreement, the Firm was dismissed from the lawsuit with prejudice, no additional penalty, and with no admission of liability or wrongdoing.

**II. How to Access Form MA and Form MA-I Filings.** The Firm's most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC's EDGAR system at [Forms MA and MA-I](#). The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by the Firms in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form ADV, as applicable. Information provided by the Firm on Form BD or Form U4 is publicly accessible through reports generated by Broker Check at <http://brokercheck.finra.org/>, and the Firm's most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov/>. For purposes of accessing such BrokerCheck reports or Form ADV, click previous hyperlinks.

## **PART C – Future Supplemental Disclosures**

As required by MSRB Rule G-42, this Municipal Advisor Disclosure Statement may be supplemented or amended, from time to time as needed, to reflect changed circumstances resulting in new conflicts of interest or changes in the conflicts of interest described above, or to provide updated information with regard to any legal or disciplinary events of the Firm. The Firm will provide Client with any such supplement or amendment as it becomes available throughout the term of the Agreement.

### **DISCLOSURE OF MATERIAL RISKS**

Municipal entities and other obligated parties should carefully consider the risks of all securities transactions prior to execution. A certain level of risk is inherent in all liabilities. The key is to determine whether the level of risk is acceptable. Risks will vary depending upon the structure, terms, and timing of the issue. There are risks that are common to all deal types and some that are specific to each offering. Some risks can be mitigated if properly identified ahead of time. Some risks are out of the control of all parties involved in the transaction and therefore cannot be mitigated nor avoided. Some risks are borne by the lender, resulting in the lender demanding a higher interest rate to offset the acceptance of risk.

As a municipal advisor, it is our fiduciary duty to analyze every aspect of a client's financial situation. A municipal advisor must take into account all assets and all liabilities of the client, current and anticipated, to create the best financial plan to achieve the client's objectives. No single transaction is viewed as separate and apart from prior transactions. The analysis includes a number of other factors, but it must include a thorough understanding of the client's risk tolerance compared to the material risks associated with a specific contemplated transaction.

The following is a general description of the financial characteristics and material risks associated with Utility System Revenue Bonds, Series 2019 that are foreseeable to us at this time. As the transaction progresses, material changes to the risk disclosures identified here will be supplemented for your consideration. However, the discussion of risks contained here should not be considered to be a disclosure of all risks or a complete discussion of the risks that are mentioned. Nothing herein constitutes or shall be construed as a legal or tax advice. You should consult your own attorney, accountant, tax advisor or other consultant for legal or tax advice as it relates to this specific transaction.

#### **Variable Rate Demand Obligations Risks**

##### **Interest Rate Risk**

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

### Liquidity Risk

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

### Credit or Liquidity Facility Renewal Risk

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

### Liquidity Provider Default Risk

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

### Issuer Default Risk

You may be in default if the funds pledged to secure your bonds are not sufficient to pay debt service on the bonds when due. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the bonds, the trustee and any credit

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

#### Reinvestment Risk

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

#### Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the VRDOs are declared taxable, or if you are subject to audit, holders of VRDOs that are subject to optional tender may elect to put their bonds, the remarketing agent may have difficulty remarketing the VRDOs and the VRDOs likely will bear a higher interest rate after any applicable interest reset. Further, your ability to issue other tax-exempt bonds also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the bonds.

#### Disclosure Compliance Risk

By selling securities in the public capital markets, issuers are usually required by contract to enter into a continuing disclosure contract to provide certain financial information contained in the official statement for the life of the notes to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter’s enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting

period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.

## **Floating Rate Notes**

The following is a general description of the financial characteristics of Floating Rate Notes (FRNs), as well as a general description of certain financial risks that are known to us and reasonably foreseeable at this time and that you should consider before deciding whether to issue FRNs. If you have any questions or concerns about these disclosures, please make those questions or concerns known immediately to us. In addition, you should consult with your financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate.

## **Financial Characteristics**

### *Maturity and Interest*

FRNs are debt securities either with short-term maturities (generally one to five years) or with nominal long-term maturities coupled with a mandatory tender for purchase after a stated period (in either case, the Floating Rate Note Period) that also generally is one to five years in length. The purchase price of the FRNs subject to mandatory tender at the end of the Floating Rate Note Period is 100% of the principal amount (par). FRNs may be issued as part of a multi-modal issue or as a separate issue of securities. If the FRNs are not retired at maturity or at the end of the Floating Rate Note Period, as the case may be, the FRNs may be remarketed into or refinanced by a new Floating Rate Note Period, new FRNs, variable rate demand obligations (VDROs), fixed rate bonds or other obligations. FRNs may be offered to investors in authorized denominations of \$5,000 or any integral multiple. FRNs typically are sold without third-party credit or liquidity support.

The interest rate on the FRNs floats, generally weekly, and is based on a spread to an index (typically, either the SIFMA Index or LIBOR, each briefly described below), subject to any applicable maximum interest rate. The spread will be fixed for the duration of the Floating Rate Note Period and will be determined at the time of pricing of the FRNs, based on your credit ratings, if any, your financial condition, general market conditions, the duration of the Floating Rate Note Period and whether interest is intended to be taxable or tax-exempt. The maximum interest rate for the FRNs generally will range between 6% per annum and 10% per annum. Interest on the FRNs typically is paid monthly or semiannually.

“SIFMA Index” is the Municipal Swap Index compiled from weekly interest rate resets of tax-exempt variable rate issues reported to Municipal Market Data that meet specific criteria established from time to time by SIFMA. The SIFMA Index is generally determined on Wednesday of each week and published and effective for the one-week period beginning on Thursday. In our capacity as a remarketing agent, we may remarket bonds that are included in calculating the SIFMA index.

“LIBOR” is the London-Interbank Offered Rate, which is an interest rate for a specified period for US Dollar investments that is managed by the British Bankers Association. LIBOR is determined each day at 11am (London time) and is the average rate (with some adjustments) derived from the quotations provided by certain reference banks that are determined by the British Banker’s Association.

In most cases, the authorizing documents for the FRNs include an alternate mechanism for determining the interest rate on the FRNs in the event that the SIFMA Index or LIBOR, as applicable, is not calculated.

### Redemption

FRNs generally will not be subject to optional redemption until six months prior to the maturity date or the end of the Floating Rate Note Period. If optional redemption is permitted, FRNs may be redeemed on any business day during that six-month window at a redemption price of par plus accrued interest. You will be required to send out a notice of optional redemption to the holders of the FRNs.

### Mandatory Tender at End of Floating Rate Note Period

Unlike VDROs, FRNs are not subject to optional or mandatory tender during a Floating Rate Note Period. FRNs (unless maturing) are subject to mandatory tender by the holders at par at the end of the Floating Rate Note Period. If you intend to remarket the FRNs at the end of the Floating Rate Note Period, you will be required to appoint a broker-dealer or a municipal securities dealer as remarketing agent to sell the FRNs at the end of the Floating Rate Note Period. You [or the obligor] will negotiate the terms of the remarketing, including the remarketing fee, at the time of the remarketing. The remarketing agent generally either will agree to underwrite or to use its best efforts to remarket the FRNs into a new Floating Rate Note Period or as VRDOs, fixed rate bonds or other obligations.

Depending on the terms of the FRNs, you [or the obligor] may be obligated to fund the purchase price of the FRNs if the remarketing agent is unable to successfully remarket the FRNs or if you are unable to refinance the FRNs at the end of the Floating Rate Note Period. In that situation (referred to as a “hard put”), if you do not provide sufficient funds, you will be in default. In other instances (referred to as a “soft put”), if the remarketing agent is unable to successfully remarket the FRNs or if you are unable to refinance the FRNs at the end of the Floating Rate Note Period, you will not be obligated to fund the purchase price of the FRNs, but the interest rate that you pay on the FRNs will increase. That adjusted interest rate, after the passage of a specified period of time, could go as high as the maximum interest rate and remain at that level until the FRNs are paid in full. The terms of any hard put or soft put can vary and will be negotiated in connection with the issuance of the FRNs and will be set forth in the authorizing documents for the FRNs.

### **Financial Risk Considerations**

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

#### Interest Rate Risk

Interest rate risk is the possibility that the interest rate that you pay on the FRNs during the Floating Rate Note Period may increase, which can be triggered by factors such as a general increase in short-term interest rates or in the index on which the interest rate is base. In addition, at the end of a Floating Rate Note Period, if you decide to roll the FRNs into a new Floating Rate Note Period, the interest rate on the FRNs during the new Floating Rate Note Period also may increase as a result of various factors, including general market conditions, increases in spreads over the index used to set the interest rate and your credit ratings, if any, or your financial condition. In either situation, the debt service costs associated with the FRNs will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash. The interest rate on the FRNs may be capped at a maximum interest rate, which generally will range between 6% per annum and 10% per annum. See “Financial Characteristics- Maturity and Interest” above.

### Index Risk

Recent reports have identified problems in the way that LIBOR has been set in past years. Although the matter is still under review by relevant regulatory authorities, there is a possibility that the method of establishing LIBOR could change. The Municipal Securities Rulemaking Board also recently announced that it will review indices used by the municipal market to develop educational materials about their use and to ensure that the market operates fairly and transparently. The method of establishing indices used in the municipal market, including the SIFMA Index, may change over time. A change in LIBOR or the SIFMA Index may affect the interest rate that you pay on the FRNs. In addition, there is a risk that, at any point in time, the indices (and therefore the rate of interest that you pay on the FRNs) may be affected by factors that are unrelated to the market for FRNs or for tax-exempt securities generally. The authorizing documents for your FRNs should include an alternate mechanism to determine the interest rate on the FRNs in the event that the applicable index is not calculated.

### Refinancing Risk

If you intend to remarket or refinance the FRNs at the end of a Floating Rate Note Period (whether as new FRNs, VRDOs, fixed rate bonds or other obligations), as a result of changes in market conditions, changes in law or changes in your credit ratings, if any, or your financial condition, you may be unable to remarket or refinance the FRNs at the end of the Floating Rate Note Period or you may pay a higher interest rate during any new Floating Rate Note Period. If the FRNs are structured to include a hard put and you are unable to successfully remarket or refinance the FRNs at the end of the Floating Rate Note Period, you may be obligated to fund the full amount of the purchase price of the tendered FRNs, much sooner than you otherwise may be expecting. If the FRNs are structured with a soft put and you are unable to successfully remarket or refinance the FRNs at the end of the Floating Rate Note Period, you may pay a higher interest rate to the holders of the FRNs, which could be as high as the maximum interest rate and remain at that level until the FRNs are paid in full. See “Financial Characteristics- Mandatory Tender at End of Floating Rate Note Period” above.

### Issuer Default Risk

You may be in default if the funds pledged to secure your FRNs are not sufficient to pay debt service on the FRNs when due. You also may be in default if the FRNs are subject to a hard put and you are unable to fully fund the purchase price of the FRNs at the end of the Floating Rate Note Period. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the FRNs and the trustee may be able to exercise a range of available remedies against you. For example, if the FRNs are secured by a general obligation pledge, you may be ordered by a court to raise taxes. Other budgetary adjustments also may be necessary to enable you to provide sufficient funds to pay debt service on or, if applicable, purchase price of the FRNs. If the FRNs are revenue bonds, you may be required to take steps to increase the available revenues that are pledged as security for the FRNs. A default may negatively impact your credit ratings. Further, a default may effectively limit your ability to publicly offer bonds or other securities at market interest rate levels. If you are unable to provide sufficient funds to remedy the default, subject to applicable state law and the terms of the authorizing documents, it may be necessary for you to consider available alternatives under state law, including (for some issuers) state-mandated receivership or bankruptcy. A default also may occur if you are unable to comply with covenants or other provisions agreed to in connection with the issuance of the FRNs. This description is only a brief summary of issues relating to defaults and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

### Reinvestment Risk

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

### Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the FRNs (if issued as tax-exempt obligations) to become taxable retroactively to the date of issuance of the FRNs, which may result in an increase in the interest rate that you pay on the FRNs or the mandatory redemption of the FRNs. The IRS also may audit you or your FRNs or other bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the FRNs are declared taxable, or if you are subject to audit, you may be unable to remarket or refinance the FRNs at the end of a Floating Rate Note Period or you may pay a higher interest rate during any new Floating Rate Note Period. Further, your ability to issue other tax-exempt bonds also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the FRNs.

## **Swap Risks**

### Counterparty Credit Risk

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

### Issuer Credit Risk

Swaps and other interest rate derivative instruments are intended to hedge changes in an underlying benchmark interest rate or rates (e.g., LIBOR, SIFMA, Treasury securities, MMD); they do not hedge changes in an issuer’s cost of funds that are attributable to changes in an issuer’s credit spread. That is, an increase in your credit spread may increase the cost of the hedged debt obligations, but may not be reflected

in payments you may receive under the terms of the swap or its fair market value. If your credit deteriorates, your net cost of funds may increase.

### Termination Risk

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

### Interest Rate Risk

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

### Basis Risk

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

### Tax Risk

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

### Accounting Risk

Most derivative agreements (including interest rate swaps) must now be reported directly on the financial statements. Those derivatives that are deemed to be "effective" hedges are reported by fair value on the balance sheet. However, derivative agreements that are not found to be effective hedges are considered investment derivatives to be reported on the income statement. The terms of the derivative agreement can

affect the complexity of effectiveness testing and possibly the results.

#### Liquidity Risk

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

#### Collateral Risk

Under certain circumstances, you may be required to deliver collateral to secure your payment obligations under the swap. Your obligation to post collateral on a swap will be calculated, from time to time, on the basis of the mark-to-market value of the swap (and on other swaps under the Master Agreement) and may be substantial. You should consult with your counsel regarding your rights with respect to collateral.

#### Operational Risk

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

#### Amortization Risk

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

### **Fixed Rate Bond Risks**

#### Issuer Default Risk

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

defaults and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

#### Redemption Risk

Your ability to redeem the bonds prior to maturity may be limited, depending on the terms of any optional redemption provisions. In the event that interest rates decline, you may be unable to take advantage of the lower interest rates to reduce debt service.

#### Refinancing Risk

If your financing plan contemplates refinancing some or all of the bonds at maturity (for example, if you have term maturities or if you choose a shorter final maturity than might otherwise be permitted under the applicable federal tax rules), market conditions or changes in law may limit or prevent you from refinancing those bonds when required. Further, limitations in the federal tax rules on advance refunding of bonds (an advance refunding of bonds occurs when tax-exempt bonds are refunded more than 90 days prior to the date on which those bonds may be retired) may restrict your ability to refund the bonds to take advantage of lower interest rates.

#### Reinvestment Risk

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

#### Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the bonds are declared taxable, or if you are subject to audit, the market price of your bonds may be adversely affected. Further, your ability to issue other tax-exempt bonds also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the bonds.

#### Disclosure Compliance Risk

By selling securities in the public capital markets, issuers are usually required by contract to enter into a continuing disclosure contract to provide certain financial information contained in the official statement for the life of the notes to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter’s enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting

period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.

#### Capital Appreciation Bonds (CABs) Risk

Capital Appreciation Bonds (“CABs”), or any bond that pays interest at maturity, may pose additional risks. CABs have been used by many municipalities to comply with various restrictions and to sculpt debt service; but have also been misused to delay debt service repayment longer than is prudent. CABs may be limited by State laws or statutes, and may incur a perception that their use automatically increases overall debt service.

#### Asset/Liability Match Risk

When issuing fixed rate, long-term bonds, there is a risk that the proceeds invested in short-term securities will not have a rate of return high enough to meet the long-term obligations since rates are typically lower on the short end of the yield curve.

#### Annual Appropriation Obligations

“Annual Appropriation Obligations” are financial obligations that may or may not constitute an indebtedness under applicable state law but is a promise to pay principal and interest that is subject to appropriation of funds each year for that purpose by your governing body. The promise to pay is not enforceable beyond the current year’s appropriation. Although you need to be able to identify sufficient funds that will be available to make the debt service payments, state law may prohibit a debt service levy or specific revenue to be pledged to the repayment of the obligations. Generally, subject to state law or local charter requirements, you are not required to obtain voter approval prior to issuance of these obligations. These obligations may or may not take the form of a lease-purchase transaction. In the event of non-appropriation in a lease purchase transaction, your possession of the leased property will revert to the bond trustee for the benefit of the bondholders for the remainder of the underlying lease term and any revenues produced from the leased property during that time will be used to pay the bondholders.

#### Grant Revenue Anticipation Bonds

Grant Revenue Anticipation Bonds are payable solely from federal aid revenues received by or on behalf of the State that are legally available for the payment thereof, and moneys held in certain funds under the Indenture (the “Trust Estate”). Such federal aid revenues consist of amounts derived from certain federal surface transportation programs (“Federal Transportation Funds”). Grant Revenue Anticipation Bonds are limited obligations of the State payable solely from the Trust Estate, and shall not be deemed or construed as creating a debt, liability or obligation of the State or of any political subdivision of the State or a pledge of the full faith and credit of the State or of any political subdivision of the State.

Federal funding for highway transportation projects to be funded directly or indirectly from federal aid must be reauthorized and adopted by Congress from time to time. There can be no assurance that future appropriations will be sufficient to ensure that Federal Transportation Funds will be available as needed. In the future, Congress may 1) amend existing laws; 2) fail to reauthorize expired transportation legislation; or 3) pass future legislation or federal administrative action to reduce the amount of Federal Transportation Funds available to the State. Future changes in law, regulation, policy, or the availability of revenues at the federal level may materially adversely affect the future availability of Federal Transportation Funds. Although certain measures have been enacted by Congress and/or Federal Highway Administration in the past, no assurance can be given that such measures would or could be enacted in the future to maintain the

flow of federal aid funding upon termination of either a short-term or multi-year authorization period. If there is a deficit in the Federal Highway Trust Fund or other event that results in a severe reduction in revenues dedicated to the Grant Anticipation Revenue Bonds, there could be insufficient Federal Transportation Funds to pay debt service on the Grant Revenue Anticipation Bonds.

## **Investment Pool Risks**

### *Credit Risk*

Credit risk is the possibility that the issuer of a security will fail to make timely payments of interest or principal. In general, the lower the credit quality of a security, the higher the yield and the higher the element of credit risk, all other factors being equal. In an attempt to minimize credit risk, the TexSTAR & LOGIC investment policy allows investment of the TexSTAR & LOGIC Cash Reserve Fund only in the obligations described above. The credit risk associated with investments in direct obligations of the United States is considered low by most authoritative sources. Obligations issued or guaranteed by many Federal agencies or government-sponsored enterprises are not direct obligations of the United States and offer more varied credit risk. Noting that the United States government is not obligated to provide support or guarantees to its instrumentalities, TexSTAR & LOGIC's investment manager will invest in obligations issued by an agency or instrumentality only after conducting appropriate credit risk analysis and believing that any credit risk with respect to the issuer is minimal. TexSTAR & LOGIC's investment manager will also invest in repurchase agreements and reverse repurchase agreements documented by a Master Repurchase Agreement in form approved by The Securities Industry and Financial Market Association ("SIFMA") and collateralized by cash or obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States and its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation. Repurchase agreement and reverse repurchase agreement transactions will be placed with an approved primary government securities dealers or financial institutions doing business in the State of Texas, and proceeds received under reverse repurchase agreements will be reinvested in securities with the same maturity as the term of the reverse agreement. TexSTAR & LOGIC will invest only in those money market mutual funds which limit their investments to obligations of the United States, its agencies and/or instrumentalities or Understanding the Risks Associated with Investing in TexSTAR & LOGIC repurchase agreements collateralized by such obligations. TexSTAR & LOGIC's investment manager will invest in money market mutual funds only after conducting appropriate credit risk analysis with respect to each issuer. To the extent TexSTAR & LOGIC invests in money market mutual funds, TexSTAR & LOGIC participants will bear a proportionate share of both TexSTAR & LOGIC's fees and expenses and those of the money market mutual fund.

## **Fixed Rate Notes**

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

### *Issuer Default Risk*

You may be in default if the funds pledged to secure your notes are not sufficient to pay debt service on the notes when due. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the Notes, the trustee and any credit support provider may be able to exercise a range of available remedies against you. For example, if the notes are secured by a general obligation pledge, you may be ordered by a court to raise taxes. Other budgetary adjustments also may be necessary to enable you to provide sufficient funds to pay debt service on the

notes. If the notes are revenue notes, you may be required to take steps to increase the available revenues that are pledged as security for the Notes. A default may negatively impact your credit ratings and may effectively limit your ability to publicly offer Notes or other securities at market interest rate levels. Further, if you are unable to provide sufficient funds to remedy the default, subject to applicable state law and the terms of the authorizing documents, you may find it necessary to consider available alternatives under state law, including (for some issuers) state-mandated receivership or bankruptcy. A default also may occur if you are unable to comply with covenants or other provisions agreed to in connection with the issuance of the notes. This description is only a brief summary of issues relating to defaults and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

#### Redemption Risk

Your ability to redeem the notes prior to maturity may be limited, depending on the terms of any optional redemption provisions. In the event that interest rates decline, you may be unable to take advantage of the lower interest rates to reduce debt service.

#### Refinancing Risk

If your financing plan contemplates refinancing some or all of the notes at maturity (for example, if you have term maturities or if you choose a shorter final maturity than might otherwise be permitted under the applicable federal tax rules), market conditions or changes in law may limit or prevent you from refinancing those notes when required. Further, limitations in the federal tax rules on advance refunding of notes (an advance refunding of Notes occurs when tax-exempt notes are refunded more than 90 days prior to the date on which those notes may be retired) may restrict your ability to refund the notes to take advantage of lower interest rates.

#### Reinvestment Risk

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

#### Tax Compliance Risk

The issuance of tax-exempt notes is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt notes. You also must covenant to take certain additional actions after issuance of the tax-exempt notes. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the notes to become taxable retroactively to the date of issuance of the notes, which may result in an increase in the interest rate that you pay on the notes or the mandatory redemption of the notes. The IRS also may audit you or your notes, in some cases on a random basis and in other cases targeted to specific types of note issues or tax concerns. If the notes are declared taxable, or if you are subject to audit, the market price of your notes may be adversely affected. Further, your ability to issue other tax-exempt notes also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the notes.

#### Disclosure Compliance Risk

By selling securities in the public capital markets, issuers are usually required by contract to enter into a

continuing disclosure contract to provide certain financial information contained in the official statement for the life of the notes to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter's enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.

#### Qualified School Construction Bond/Note (QSCB) Program Risk

Issuers that receive subsidy payments from the Federal Government under the QSCB program for their bond or note issuances can have that subsidy payment reduced or even eliminated in the event of Sequestration or the violation of QSCB program rules.

#### **Put Bonds**

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

#### Interest Rate Risk

Interest Rate risk reflects the fact that the interest rate has not been established until the final maturity of the bond, and that interest rates may be higher at the end of the Put period. Interest rates may have increased for a variety of reasons including a general increase in medium or long-term interest rates, a decrease in marginal income tax rates, or credit concerns relating to you or your market sector or industry. If any of these events occur, the debt service costs associated with the bonds will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash.

#### Issuer Default Risk

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

### Reinvestment Risk

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

### Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the Put Bonds are declared taxable, or if you are subject to audit, you may have difficulty remarketing the Put Bonds and the Put Bonds likely will bear a higher interest rate after the Put period. Further, your ability to issue other tax-exempt bonds also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the bonds.

### Disclosure Compliance Risk

By selling securities in the public capital markets, issuers are usually required by contract to enter into a continuing disclosure contract to provide certain financial information contained in the official statement for the life of the bonds to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter’s enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.

## **Variable Rate Obligation Risks**

### Interest Rate Risk

Interest rate risk is the possibility that the interest rate that you pay on the obligations may increase, which can be triggered by various factors, such as a general increase in short-term interest rates or a decrease in marginal income tax rates. If any of these events occur, the debt service costs associated with the obligations will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash. The interest rate on the obligations may be capped at a maximum rate, which generally will range between 9% per annum and 15% per annum.

“LIBOR” is the London-Interbank Offered Rate, which is an interest rate for a specified period for US Dollar investments that is managed by the British Bankers Association. LIBOR is determined each day at 11am (London time) and is the average rate (with some adjustments) derived from the quotations provided by certain reference banks that are determined by the British Banker’s Association.

### Issuer Default Risk

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

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

### Reinvestment Risk

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

### Tax Compliance Risk

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

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

### Disclosure Compliance Risk

By selling securities in the public capital markets, issuers are usually required by contract to enter into a continuing disclosure contract to provide certain financial information contained in the official statement for the life of the notes to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter's enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.

### Yield Adjustment Event or Taxable Event Risk

**Taxable Event:** The application of the proceeds of the Loan in any manner, the existence of any condition or the occurrence or nonoccurrence of any event, whether within or without the control of Borrower, which has the result that, all or any portion of the interest on the Note is or becomes includable in the gross income of Lender or any holder or former holder of the Note.

**Taxable Rate:** The interest rate on the Note adjusted to a rate determined by Lender in its sole discretion necessary to maintain the same after-tax yield to Lender after a Determination of Taxability. The rate of interest on the Loan shall be adjusted as provided in the formula described in the definition of "Yield Adjustment Event". The term "Yield Adjustment Event" means the receipt by Borrower of a written notification from Lender that a change in the interest rate on the Loan would result from the following calculation: The current interest rate multiplied by the greater of (i) 1.0, and (ii) the product of (a) 1.0 minus the New Corporate Tax Rate multiplied by (b) 1.53846; where the term "New Corporate Tax Rate" means the then current maximum federal income tax rate applicable to for-profit corporations if less than such income tax rate as of the Closing Date.

### Risk of Increased Cost and Reduced Return

If any Change in Law shall (i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, Lender; (ii) subject Lender to any Indemnified Taxes; or (iii) impose on Lender any other condition, cost or expense (other than Taxes) affecting this Agreement or Loans made by Lender; and the result of any of the foregoing shall be to increase the cost to Lender of making, converting to, continuing or maintaining any Loans or of maintaining its obligation to make the Loans, or to reduce the amount of any sum received or receivable by Lender (whether of principal, interest or any other amount) then, upon request of Lender, Borrower will pay to Lender such additional amount or amounts as will compensate Lender such additional costs incurred or reduction suffered.

If Lender determines that any Change in Law affecting Lender or any lending office of Lender regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on Lender's capital as a consequence of this Agreement, the Loans to a level below that which Lender could have achieved but for such Change in Law (taking into consideration Lender's policies with respect to capital adequacy), then from time to time Borrower will pay to Lender such additional amount or amounts as will compensate Lender for any such reduction suffered.

A certificate of Lender setting forth the amount or amounts necessary to compensate Lender as specified in this Section, and delivered to Borrower, shall be conclusive absent manifest error. Borrower shall pay Lender the amount shown as due on any such certificate within 10 days after receipt thereof. Failure or delay on the part of Lender to demand compensation pursuant to this Section shall not constitute a waiver of Lender's right to demand such compensation.

### **Conduit Issues**

As clearly defined in the legal documents, the financial and market risks are borne by the obligor. However, in the role of Conduit, should the obligor default on their obligation, there could be the potential for headline risk. In addition, you should consult with your financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate.

### **Forward Delivery of Bonds**

In a typical issuance of fixed rate bonds, the bonds are issued and delivered within one to four weeks of the date of the bond purchase agreement (ordinarily the date that the bonds are priced). In a forward delivery bond transaction, the period between the date that the bonds are priced and the date that the bonds are issued and delivered is longer, ranging perhaps from several months to more than a year. The issuance of forward delivery bonds can be an appropriate strategy to refund outstanding tax-exempt bonds that are not eligible for an advance refunding (either because those bonds have already been advance refunded or do not otherwise qualify for advance refunding under the federal tax rules) and are not eligible for a current refunding (under the federal tax rules, a current refunding means that the new bonds are issued no more than 90 days prior to the redemption or maturity date of the outstanding bonds). Issuance of Forward Delivery Bonds will allow you to lock in a rate of interest that may (or may not) be available if you wait to price and issue refunding bonds at a later date. The Forward Delivery Bonds will be priced in the current market for delivery on a later date, typically within the 90-day window prior to the redemption or maturity date of the outstanding bonds to be refunded.

At the time of the pricing of the Forward Delivery Bonds, the Issuer will enter into a forward bond purchase agreement (BPA) with the underwriter. The Forward Delivery Bonds will be priced for delivery on a later date that is specified in the forward BPA. The forward BPA ordinarily contains a number of conditions that must be satisfied on the delivery date of the Forward Delivery Bonds, similar to the conditions included in a typical bond purchase agreement relating to a normal delivery of bonds. However, under the forward BPA, those conditions also must be met on the date of delivery of the Forward Delivery Bonds after the passage of a longer period of time. Those conditions will include, among others, delivery of an opinion of bond counsel addressing the tax status of the Forward Delivery Bonds as of the date of their delivery.

The forward BPA may include a liquidated damages provision that may entitle you to receive a predetermined amount as liquidated damages in the event that underwriter doesn't perform its obligations as set forth in the forward BPA, subject to any conditions that are included in the forward BPA. Although the underwriter's obligations may not be subject to performance by the investors purchasing the Forward Delivery Bonds, the forward BPA may require that investors deliver an investor acknowledgement letter confirming that the investors understand the terms of, and risks associated with, the delivery of the Forward Delivery Bonds

The pricing of the Forward Delivery Bonds typically will include a premium above then-current market interest rates to reflect the additional interest rate risk borne by the investors as a result of the delayed

delivery of the Forward Delivery Bonds. That premium typically varies depending on the length of the forward delivery period and the maturity date of the Forward Delivery Bonds.

Certain risks may arise in connection with the issuance of the Forward Delivery Bonds, including some or all of the following:

The issuance of the Forward Delivery Bonds will require satisfaction of various conditions on their date of delivery, as set forth in the forward BPA. There is a risk that the underwriter may be unable to satisfy those conditions on the date of delivery if certain events or actions occur or do not occur (as the case may be), including, among others, any one or more of the following:

- An intervening change in law may prevent bond counsel from rendering the required tax opinion on the delivery date
- An intervening change in law may prevent Issuer or the underwriter from performing or any other counsel from delivering a required opinion on the delivery date.
- If material litigation has been filed or an event of default occurs under the underlying documents relating to the Forward Delivery Bonds (or other bonds), the Issuer or the underwriter may not be able to satisfy the conditions of the forward BPA and underwriter may have the right to terminate the obligation to purchase the Forward Delivery Bonds.
- A material adverse change in the Issuer's or underwriter's condition may prevent the Issuer or underwriter from meeting the requirements of the forward BPA to deliver current disclosure information.

The universe of potential investors for the Forward Delivery Bonds may be limited as a result of the additional risks associated with forward delivery of securities. In addition, given the greater risk due to the delayed nature of the obligation to purchase the Forward Delivery Bonds may require additional credit approvals in order to accept orders from certain investors. In either event, the pricing of the Forward Delivery Bonds, and the amount of the forward delivery premium, may be adversely affected.

## **Cash Defeasance Risks**

### Reinvestment Risk

The cash you use to defease the bonds will be used to purchase SLGS or other securities to be held in escrow until the defeased bonds reach maturity or are called. Depending on market conditions, you may not be able to invest the cash needed to defease the bonds at or near the rate of interest that you are paying on the bonds, which is referred to as "negative arbitrage". One way to mitigate this risk is to obtain a report from an independent evaluator to determine whether the cash deposit will be sufficient to retire the bonds under all circumstances, regardless of the interest rates at the time of reinvestment.

### Liquidity Risk

Liquidity risk is the risk that the cash you will use to defease the bonds will reduce cash on hand and will not be available to you for operating liquidity, reserves, investment or any other purpose. You may have to liquidate investments to raise the cash needed for this transaction or to meet operating cash flow requirements.

### Securities Issuer Default and Downgrade Risk

The issuer of the securities held in the defeasance escrow could default on its obligation to pay scheduled debt service payments when due. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the trustee and any credit support provider may be able to exercise a range of available remedies on your behalf. This risk may be lowered by purchasing AAA rated investments. In the event that of an issuer downgrade below a AAA credit rating, the securities in escrow may no longer be eligible to be held in escrow and would need to be replaced. In the case that the securities need to be replaced, you might incur a financial loss through selling the downgraded securities and when you buy a replacement security it might be at a higher price and lower yield than your previously held securities. You might also not be able to find a replacement security that satisfies the covenants of the escrow. Even if you do not need to replace the downgraded securities, your securities would be at a higher risk of default than AAA rated securities. This description is only a brief summary of issues relating to defaults and downgrades and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

### Redemption Risk

Your ability to redeem the bonds prior to maturity may be limited, depending on the terms of any optional redemption provisions. In the event that interest rates decline, you may be unable to take advantage of the lower interest rates to reduce debt service.

### Refinancing Risk

If your financing plan contemplates refinancing some or all of the bonds at maturity (for example, if you have term maturities or if you choose a shorter final maturity than might otherwise be permitted under the applicable federal tax rules), market conditions or changes in law may limit or prevent you from refinancing those bonds when required. Further, limitations in the federal tax rules on advance refunding of bonds (an advance refunding of bonds occurs when tax-exempt bonds are refunded more than 90 days prior to the date on which those bonds may be retired) may restrict your ability to refund the bonds to take advantage of lower interest rates.

### Tax Compliance Risk

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the bonds are declared taxable, or if you are subject to audit, the market price of your bonds may be adversely affected. Further, your ability to issue other tax-exempt bonds also may be limited. This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding tax implications of issuing the bonds.

### Disclosure Compliance Risk

Issuers are usually required by contract to enter into a continuing disclosure contract to provide certain financial information contained in the official statement for the life of the notes to the Municipal Securities Rulemaking Board. The failure to comply with this contractual undertaking may impair or limit the ability of an issuer to access the capital markets, to make disclosure on its failure to comply with the contract and may be subject to other actions by regulatory bodies or investors or underwriter's enforcing the contractual obligation. In addition, the issuer and its representatives are responsible for fair and accurate disclosure of its financial condition and all material information is contained within the offering document, and is amended as needed within the underwriting period. Failure to accurately disclose information within the offering document can have significant legal implications to the issuer and its representatives.