

**NEW ISSUE – BOOK ENTRY ONLY**

**RATINGS: See "RATINGS" herein.**

*In the opinion of Foley & Lardner LLP and Gonzales Saggio & Harlan LLP, Co-Bond Counsel, based on existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants as described herein, interest on the 2007A Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Co-Bond Counsel, interest on the 2007A Bonds is not an item of tax preference includable in the determination of federal individual or corporate alternative minimum taxes. However, interest on the 2007A Bonds is includable in the computation of adjusted current earnings of corporations for purposes of calculating the federal alternative minimum taxes and other taxes imposed on certain corporations. The interest on the 2007A Bonds is exempt from present Wisconsin income taxes. See "TAX EXEMPTION" herein.*

**\$31,865,000**



**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE (WISCONSIN)  
Refunding Revenue Bonds, Series 2007A  
(Milwaukee Public Schools - Neighborhood Schools Initiative)**

**Dated:** Date of issuance.

**Maturities,  
Interest Rates,**

**Prices and Yields:** As shown on the inside front cover.

**Interest Payment**

**Dates:** Payable semi-annually on the first day of each February and August, commencing August 1, 2007.

**Issuance:** The 2007A Bonds are issuable as fully registered bonds in denominations of \$5,000 or any multiple thereof, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2007A Bonds. Purchasers of 2007A Bonds will not receive physical delivery of bond certificates. Beneficial ownership of the 2007A Bonds will be evidenced by book-entry only. Principal and interest payments will be made directly to Cede & Co., as nominee of DTC, which will in turn remit such payments to the DTC Participants for subsequent disbursement to the beneficial owners.

The 2007A Bonds will be issued pursuant to the terms of an Indenture of Trust dated as of February 1, 2002, as supplemented by a Third Supplemental Indenture of Trust dated as of February 1, 2007 (together, and as amended and supplemented from time to time, the "Indenture"), each between the Redevelopment Authority of the City of Milwaukee (the "Issuer") and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"). Prior issues of bonds were issued pursuant to the Indenture on February 14, 2002 (the "2002A Bonds") and November 18, 2003 (the "2003A Bonds"). Additional bonds may be issued pursuant to the terms of the Indenture (the "Additional Bonds" and, collectively with the 2002A Bonds, the 2003A Bonds and the 2007A Bonds, the "Bonds").

**Purpose:** The 2007A Bonds are being issued to advance refund a portion of the 2003A Bonds which financed, in part, the Neighborhood Schools Plan described in APPENDIX B hereto.

**Security:** **The Bonds are special, limited obligations of the Issuer and shall never constitute debt or indebtedness of MPS, the City of Milwaukee, the State or any subdivision thereof, or a charge against the general credit or taxing powers of any of them. The Issuer has no taxing powers.**

All Bonds will be secured on an equal and ratable basis by (1) all cash and securities held from time to time in the Trust Funds (with certain exceptions described herein) held by the Trustee, and the investment earnings thereon, and (2) all payments made by the Milwaukee Board of School Directors ("MPS") on any notes issued under the Loan Agreement described herein (collectively, the "Notes"). All Notes are limited obligations of MPS, payable solely from, and secured equally and ratably by, a pledge of all Intradistrict Aid received by MPS from the State of Wisconsin (the "State").

The 2002A Bonds, the 2003A Bonds and the 2007A Bonds are secured on an equal and ratable basis under the Indenture by the Special Debt Service Reserve Fund. MPS is required to fund any deficiency in the Special Debt Service Reserve Fund to the extent Intradistrict Aid is available for such purpose. In addition, the State has issued its Moral Obligation Pledge to fund any deficiencies in the Special Debt Service Reserve Fund.

The Special Debt Service Reserve Fund will be funded by an amended surety bond (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac Assurance") simultaneously with the delivery of the 2007A Bonds.

**Bond Insurance:** Payment of principal of and interest on the 2007A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance simultaneously with the delivery of the 2007A Bonds.

**Ambac**

**Redemption:** The 2007A Bonds are subject to optional and mandatory redemption prior to maturity.

**Underwriting:** The 2007A Bonds will be offered when, as and if issued by the Issuer and accepted by the Underwriters, subject to the approval of legality by Foley & Lardner LLP and Gonzalez Saggio & Harlan LLP, Co-Bond Counsel. It is expected that delivery of the 2007A Bonds will be made through the facilities of DTC on or about February 1, 2007 against payment therefor. For information with respect to the Underwriters and their compensation, see "UNDERWRITING" herein.

**Robert W. Baird & Co.**

**Loop Capital Markets, LLC**

January 11, 2007

### MATURITY SCHEDULE

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2020	\$ 5,290,000	3.850%	3.900%	99.479%
2021	5,680,000	3.900%	4.000%	98.907%

\$20,895,000 4.000% Term Bond Due August 1, 2023 @ 98.809%

## REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by MPS, the Issuer, Public Financial Management, Inc., or by Robert W. Baird & Co. Incorporated or Loop Capital Markets, LLC (collectively, the "Underwriters"), to give any information or to make any representations other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 2007A Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Information set forth in this Official Statement has been furnished by MPS and other sources which are believed to be reliable but not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that opinions are correct as of any time subsequent to the date hereof.

Certain statements in this Official Statement, which may be identified by the use of such terms as plan, project, expect, estimate, budget or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectations or performance which involved known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. Neither the Issuer nor MPS plans to issue updates or revisions to such forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2007A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The 2007A Bonds have not been registered under the Securities Act of 1933, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon certain exemptions set forth in such Acts. The registration, qualification or exemption of the 2007A Bonds in accordance with the applicable securities law provisions of the jurisdictions wherein these securities have been registered, qualified or exempted should not be regarded as a recommendation thereof. Neither these jurisdictions nor any of their agencies have guaranteed or passed upon the safety of the 2007A Bonds as an investment, upon the probability of any earnings thereon, or upon the accuracy or adequacy of this Official Statement. Representation to the contrary is a criminal offense.

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## OFFICIAL STATEMENT

**\$31,865,000**

**Redevelopment Authority of the City of Milwaukee (Wisconsin)  
Refunding Revenue Bonds, Series 2007A  
(Milwaukee Public Schools – Neighborhood Schools Initiative)**

### INTRODUCTION

#### **Purpose of this Official Statement**

This Official Statement sets forth information in connection with the offering of \$31,865,000 Redevelopment Authority of the City of Milwaukee (Wisconsin) Refunding Revenue Bonds, Series 2007A (Milwaukee Public Schools – Neighborhood Schools Initiative) (the "2007A Bonds") by the Redevelopment Authority of the City of Milwaukee (the "Issuer"). The 2007A Bonds are authorized to be issued under Section 66.1333 of the Wisconsin Statutes (the "Act") pursuant to a resolution adopted by the Issuer on December 14, 2006. The 2007A Bonds will be issued under and secured by an Indenture of Trust dated as of February 1, 2002 (as amended from time to time, including by the Third Supplemental Indenture of Trust dated as of February 1, 2007 relating to the 2007A Bonds, the "Indenture") between the Issuer and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"). The Trustee will act as the registrar, paying agent and authenticating agent for the 2007A Bonds.

#### **Purpose of the 2007A Bonds**

The Issuer will loan the proceeds of the 2007A Bonds to the Milwaukee Board of School Directors ("MPS") pursuant to the terms of a Loan Agreement dated as of February 1, 2002 (as amended from time to time, including by the Second Supplemental Loan Agreement dated as of February 1, 2007, the "Loan Agreement"). The loan will be evidenced by a promissory note of MPS dated the Settlement Date (the "2007A Note") issued in the principal amount of the 2007A Bonds, maturing and paying interest so as to provide revenues sufficient to pay debt service when due on the 2007A Bonds. MPS will use the proceeds of the 2007A Bonds to advance refund (the "Refunding") the 2020 through 2023 maturities of the 2003A Bonds (as defined below). The 2002A Bonds (as defined below) and the 2003A Bonds were issued for the purpose of financing, in part, the Neighborhood Schools Plan described in **APPENDIX B**, which plan includes providing approximately 750,000 square feet of additional classroom capacity for schools operated by MPS, and the related activities of MPS in the City of Milwaukee, Wisconsin (the "Program"). Several nonstock, nonprofit organizations are cooperating with MPS on individual projects under the Program.

#### **2002A Bonds, 2003A Bonds and Additional Bonds**

On February 14, 2002, the Issuer issued \$33,300,000 of its Revenue Bonds, Series 2002A (Milwaukee Public Schools – Neighborhood Schools Initiative) (the "2002A Bonds") pursuant to the terms of the Indenture and on November 18, 2003 the Issuer issued \$78,740,000 of its Revenue Bonds, Series 2003A (Milwaukee Public Schools – Neighborhood Schools Initiative) (the "2003A Bonds") pursuant to the terms of the Indenture. The entire principal amount of the 2002A Bonds and the 2003A Bonds remains outstanding. After giving effect to the Refunding, and the redemption of \$5,100,000 of the August 1, 2023 maturity of the 2003A Bonds expected to occur on or about February 1, 2007, \$33,300,000 in aggregate principal amount of 2002A Bonds and \$44,380,000 in aggregate principal amount of 2003A Bonds will then be outstanding

under the Indenture. References in this Official Statement to the 2002A Bonds and the 2003A Bonds shall, after the Refunding and such redemption, mean only those 2002A Bonds and 2003A Bonds which were not advance refunded or redeemed. In addition, the Issuer may issue additional bonds ("Additional Bonds") pursuant to the terms of the Indenture. The 2002A Bonds, the 2003A Bonds, the 2007A Bonds and any Additional Bonds are referred to herein as the "Bonds." The Bonds will be secured as described below.

Although the Act permits the issuance of up to \$170,000,000 of Bonds, the authorization of the Bonds by the Joint Committee on Finance of the State limited to \$100,000,000 the amount of Bond proceeds that may be used to pay costs of the Program. Bond proceeds applied to certain costs associated with the Bonds (including but not limited to capitalized interest and issuance costs) are not subject to the limitation. Approximately \$98,486,000 of proceeds of the 2002A Bonds and the 2003A Bonds were made available to finance costs of the Program. MPS believes that the proceeds of the 2002A Bonds and the 2003A Bonds have adequately financed the Program. MPS and the Issuer have no current plans to issue Additional Bonds other than refunding bonds.

#### **Source of Payment and Security**

**The Bonds will be issued as special, limited obligations of the Issuer under and pursuant to the Act, payable solely as described herein, and shall never constitute debt or indebtedness of MPS, the City, the State or any subdivision thereof, or a charge against the general credit or taxing powers of any of them. The Issuer has no taxing powers.**

The Bonds will be secured on an equal and ratable basis by the following: (1) all cash and securities held from time to time in the Trust Funds (other than the Rebate Fund and certain debt service reserve funds that may secure Additional Bonds not covered by a Moral Obligation Pledge) held by the Trustee, and the investment earnings thereon, and (2) all payments made by MPS on any notes issued under the Loan Agreement (collectively, the "Notes"). All Notes are payable solely from, and secured equally and ratably by, Intradistrict Aid received by MPS from the State of Wisconsin (the "State"). The Issuer will pledge and assign the Notes and certain of its rights under the Loan Agreement to the Trustee under the Indenture.

Subject to certain conditions, including the approval of the State's Secretary of Administration, Bonds may be secured by a moral obligation pledge of the State (as more fully described herein, the "Moral Obligation Pledge"). The 2002A Bonds, the 2003A Bonds and the 2007A Bonds are secured by the Moral Obligation Pledge. Any Additional Bonds may or may not be secured by the Moral Obligation Pledge.

The Indenture establishes a Special Debt Service Reserve Fund for all Bonds secured by the Moral Obligation Pledge, to be funded in an amount equal to the aggregate maximum annual debt service for all such Bonds (the "Special Debt Service Reserve Fund Requirement"). Upon the delivery of the 2007A Bonds, the Special Debt Service Reserve Fund Requirement will equal \$11,097,600, which will be funded by an amended surety bond (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac Assurance"). The Special Debt Service Reserve Fund is required to be replenished by MPS to an amount equal to the Special Debt Service Reserve Fund Requirement (solely from the Intradistrict Aid received by MPS from the State). In addition, the State has issued its Moral Obligation Pledge to replenish the Special Debt Service Reserve Fund to an amount equal to the Special Debt Service Reserve Fund Requirement. See "**SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS - Debt Service Reserve Funds - Moral Obligation Pledge of the State of Wisconsin**" herein.

## **Bond Insurance**

Payment of principal of and interest on the 2007A Bonds when due will be insured by a financial guaranty insurance policy (the "2007A Financial Guaranty Insurance Policy") to be issued by Ambac Assurance simultaneously with the delivery of the 2007A Bonds. See "**BOND INSURANCE**" herein for information regarding the 2007A Financial Guaranty Insurance Policy. The 2002A Bonds and the 2003A Bonds are also insured by Ambac Assurance under separate financial guaranty insurance policies.

This Official Statement contains brief descriptions of MPS, the Program, the 2007A Bonds, the 2007A Note, the Loan Agreement and the Indenture. The descriptions and summaries herein do not purport to be comprehensive or definitive and, with respect to documents, reference is made to each document for the complete details of all terms and conditions. Terms not defined herein shall have the meanings set forth in **APPENDIX C**. All statements herein are qualified in their entirety by reference to each such document. See "**MISCELLANEOUS**" herein for information regarding availability of the documents.

## **THE ISSUER**

The Issuer is a redevelopment authority created by the City of Milwaukee, Wisconsin (the "City") pursuant to the Act. The Issuer is authorized under the Act to issue refunding revenue bonds of the character of the 2007A Bonds to refund bonds previously issued to finance projects of the character of the Program. The Issuer's governing body adopted a resolution on December 14, 2006 authorizing the issuance and sale of the 2007A Bonds.

The Issuer makes no representation regarding the security for the 2007A Bonds or the suitability of the 2007A Bonds for investment. The Issuer undertakes no obligation to administer or monitor the Program.

## **MILWAUKEE PUBLIC SCHOOLS**

MPS was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. MPS provides elementary, secondary, vocational and special education services for grades K through 12. MPS's boundaries are substantially coterminous with those of the City. MPS is effectively treated by Wisconsin Statutes as a City department authorized by law to adopt its own budget. The City is required to levy and collect property taxes to support the MPS budget. The City Treasurer, by Statute, disburses MPS funds at the direction of the Director/Board Clerk for MPS. The City Comptroller, City Treasurer and City Attorney perform their functions for MPS as well as the City. MPS has directed the Department of Administration of the State to pay all Intradistrict Aid (defined herein) directly to the Trustee. See **APPENDIX A** for a more complete description of MPS.

## SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS

### General

**The Bonds will be issued as special, limited obligations of the Issuer under and pursuant to the Act, payable solely as described herein, and shall never constitute debt or indebtedness of MPS, the City, the State or any subdivision thereof, or a charge against the general credit or taxing powers of any of them. The Issuer has no taxing powers.**

The Bonds will be secured on an equal and ratable basis under the Indenture by (1) all cash and securities held from time to time in the Trust Funds (other than the Rebate Fund and certain debt service reserve funds that may secure Additional Bonds not covered by the Moral Obligation Pledge) held by the Trustee, and the investment earnings thereon, and (2) all payments made by MPS on the Notes. All Notes are payable solely from, and secured equally and ratably by, a pledge of all Intradistrict Aid received by MPS from the State.

The 2002A Bonds, the 2003A Bonds and the 2007A Bonds are secured on an equal and ratable basis by the Special Debt Service Reserve Fund held by the Trustee. MPS is required to fund any deficiency in the Special Debt Service Reserve Fund to the extent Intradistrict Aid is available for such purpose. In addition, the State has issued its Moral Obligation Pledge to fund any deficiency in the Special Debt Service Reserve Fund. See "**Debt Service Reserve Funds – Special Debt Service Reserve Fund**" and "**– Moral Obligation Pledge of the State of Wisconsin**" below.

Payment of principal of and interest on the 2007A Bonds when due will be insured by the 2007A Financial Guaranty Insurance Policy to be issued by Ambac Assurance simultaneously with the delivery of the 2007A Bonds. See "**BOND INSURANCE**" herein for information regarding the 2007A Financial Guaranty Insurance Policy.

### Intradistrict Aid

MPS's obligations under the Notes and the Loan Agreement are payable solely from, and are equally and ratably secured by, a pledge of all Intradistrict Aid due MPS from the State.

"Intradistrict Aid" is the intradistrict transfer aid paid to MPS pursuant to Section 121.85(6)(a), (am) and (ar) of the Wisconsin Statutes (as amended, the "Enabling Legislation"). Its original purpose was to provide funds for a transportation program, principally busing, designed to achieve better racial balance among the various school attendance areas within MPS. Intradistrict Aid is paid in respect of "transfer pupils" which are (i) those non-minority pupils who transfer from a non-minority attendance area (less than a 30% minority population) to a minority attendance area (30% or more minority population), and (ii) those minority pupils who transfer from a minority attendance area to a non-minority attendance area.

The amount of Intradistrict Aid is calculated and paid in arrears once each year, currently in June. The statutory formula involves calculating a "Base Amount" and then adjusting the Base Amount downward (the "Downward Adjustment") if required, as described below. The Base Amount is calculated by multiplying the number of transfer pupils by 0.25 and multiplying that product by MPS's current equalization aid (the general state aid program for local school districts) per pupil. The Base Amount is also affected by certain other factors, including but not limited to an annual deduction relating to the State's school choice program. The Downward Adjustment feature was added by the 1999 amendments to the Enabling Legislation. Its purpose was to create

a financial incentive for MPS to transport pupils from one attendance area to another only with written parental consent. The Downward Adjustment reduces the Base Amount by excluding from the Base Amount calculation the number of transfer pupils whose parents had not submitted a written consent to the transfer. The adjustment was phased in gradually so that there would be no Downward Adjustment if the applicable percentage of parental consent was at least 75% in the 2000/2001 school year; 80% in 2001/2002; 90% in 2002/2003; and 95% in 2003/2004. For the 2004/2005 school year, there was a Downward Adjustment in respect of each transfer pupil whose transfer was without parental consent. Beginning in the 2005/2006 school year, there will not be any Downward Adjustment if the applicable percentage of parental consent is at least 95%. Except for the 2004/2005 school year, MPS exceeded the applicable percentage of parental consent, so there has been a Downward Adjustment only with respect to the 2004/2005 school year.

The table below depicts the calculation of Intradistrict Aid since the 2001/2002 school year:

School Year (ending June 30)	Base Amount <sup>(1)</sup>	Downward Adjustment	Intradistrict Aid <sup>(2)</sup>
2002	\$34,909,339	0	\$34,909,339
2003	34,675,898	0	34,675,898
2004	35,659,069	0	35,569,069
2005	36,696,178	1,333,802	35,362,376
2006	40,627,588	0	40,627,588

<sup>(1)</sup> The number of transfer pupils, multiplied by 0.25, multiplied by the equalization aid per pupil, minus certain deductions, including but not limited to a deduction for the State's school choice program.

<sup>(2)</sup> For a particular school year, the amount by which the greater of \$32,919,256 or the Base Amount exceeds the Downward Adjustment.

The central purpose of the 1999 amendments to the Enabling Legislation was to enable MPS to carry out neighborhood school programs of the type that MPS subsequently embodied in the Program described in **APPENDIX B**. The core concept was that the transportation savings that resulted from reduced reliance on busing could be used to enhance the quality of neighborhood schools. The Enabling Legislation empowered MPS to pledge its Intradistrict Aid to secure debt incurred to finance the Program. To help assure that the Intradistrict Aid would be predictable in amount, the legislation provided, in effect, that for so long as Bonds are outstanding, the Base Amount in any school year would not be less than the Base Amount for the 1998/1999 school year, namely \$32,919,256. Although that minimum Base Amount is subject to the possibility of Downward Adjustment, MPS intends to operate the Program in a manner such that there will be no material Downward Adjustments.

Under the terms of the Loan Agreement and the February 14, 2002 Intercept Agreement by and among the Department of Administration of the State, the Department of Public Instruction, the Issuer and MPS, all of MPS's Intradistrict Aid is pledged by MPS to the Trustee and is to be paid directly by the State to the Trustee. The Indenture requires the Trustee annually to determine the amount of Intradistrict Aid required to pay debt service on the Bonds and then to disburse the Intradistrict Aid as set forth in "**THE 2007A BONDS - Flow of Funds**" herein.

The minimum Base Amount covers maximum annual debt service on the 2002A Bonds, the 2003A Bonds and the 2007A Bonds as set forth in "**ANNUAL DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE**" herein. That level of coverage could

be diluted if Additional Bonds were to be issued or if the Enabling Legislation were to be amended or if the Downward Adjustment in any school year caused the amount of Intradistrict Aid to be less than the minimum Base Amount.

Although the Act permits the issuance of up to \$170,000,000 of Bonds, the authorization of the Bonds by the Joint Committee on Finance of the State limited to \$100,000,000 the amount of Bond proceeds that may be used to finance costs of the Program. Certain costs are not subject to the limitation (including but not limited to capitalized interest and issuance costs). Approximately \$98,486,000 of Bond proceeds have been made available to finance costs of the Program. MPS and the Issuer have no current plans to issue Additional Bonds other than refunding bonds.

**There can be no assurance that the Enabling Legislation will not be amended or repealed in future years. Future legislation could have the direct or indirect effect of reducing or eliminating the amount of Intradistrict Aid.** One purpose of the Moral Obligation Pledge, however, is to provide an incentive for the State legislature not to amend the Enabling Legislation in a manner that jeopardizes the security for the Bonds.

Although it is possible that a Downward Adjustment in any school year could cause the amount of Intradistrict Aid to be less than the minimum Base Amount of \$32,919,256, that would occur only if written parental consent is obtained for less than 95% of the transfer pupils. In the last three school years, that percentage has ranged from 95.2% for the year ending June 30, 2004, to 95.0% for the year ending June 30, 2005, to 96.5% for the year ending June 30, 2006.

#### **Debt Service Reserve Funds**

**General.** Two debt service reserve funds are established under the Indenture: the Special Debt Service Reserve Fund and the Reserve Fund. The 2002A Bonds, the 2003A Bonds and the 2007A Bonds are equally and ratably secured by the Special Debt Service Reserve Fund and will not be secured by the Reserve Fund. Additional Bonds may be issued under the Indenture and secured by the Special Debt Service Reserve Fund under certain circumstances (including a requirement that the State issue its moral obligation to fund deficiencies therein with respect to such Additional Bonds). Additional Bonds that are not secured by the Moral Obligation Pledge will not be secured by the Special Debt Service Reserve Fund but may be secured by the Reserve Fund. The Indenture requires that, upon the issuance of Additional Bonds, the Reserve Fund will be funded in an aggregate amount necessary such that the ratings assigned to all then Outstanding Bonds which are secured by the Moral Obligation Pledge will not be reduced, qualified or withdrawn. No funds have been deposited in the Reserve Fund as of the date of issuance of the 2007A Bonds.

**Special Debt Service Reserve Fund.** The Indenture establishes a Special Debt Service Reserve Fund for all Bonds secured by the Moral Obligation Pledge. The Special Debt Service Reserve Fund must be funded in an amount equal to the aggregate maximum annual debt service for all such Bonds (including the 2002A Bonds, the 2003A Bonds and the 2007A Bonds) (the "Special Debt Service Reserve Fund Requirement"). Upon the delivery of the 2007A Bonds, the Special Debt Service Reserve Fund Requirement will equal \$11,097,600, which will be funded by the Surety Bond issued by Ambac Assurance. See "**SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS — Debt Service Reserve Funds — Surety Bond**" below.

The Special Debt Service Reserve Fund is required to be replenished by MPS to an amount equal to the Special Debt Service Reserve Fund Requirement solely from the Intradistrict Aid received by MPS from the State. In addition, the State has issued its Moral Obligation Pledge to replenish the Special Debt Service Reserve Fund to an amount equal to the Special Debt Service Reserve Requirement. See "**SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS – Debt Service Reserve Funds – Moral Obligation Pledge of the State of Wisconsin**" below.

Funds on deposit in the Special Debt Service Reserve Fund will be used to make up deficiencies in the Bond Fund. The Trustee is required to transfer sufficient funds from the Special Debt Service Reserve Fund to the Bond Fund if on any day on which the principal or interest on the 2007A Bonds becomes due the moneys in the Bond Fund are insufficient for making such payment. The Trustee is required, on the second business day of each month, to compare the Special Debt Service Reserve Fund Requirement and the balance in the Special Debt Service Reserve Fund. If on any such date, the balance in the Special Debt Service Reserve Fund is below the Special Debt Service Reserve Fund Requirement, the Trustee is required, within two Business Days, to notify the Issuer in writing of such deficiency and, upon receipt thereof, the Issuer is required to forthwith certify to the Secretary of Administration, the Governor and the Joint Committee on Finance of the State the amount necessary to restore the balance in the Special Debt Service Reserve Fund to the Special Debt Service Reserve Fund Requirement.

**Surety Bond.** MPS has applied to Ambac Assurance for the issuance of an amended Surety Bond to fund the Special Debt Service Reserve Fund upon the delivery of the 2007A Bonds. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2007A Bonds. The Surety Bond provides that upon the later of (i) one day after receipt by Ambac Assurance of a demand executed by the Trustee certifying that provision for the payment of principal or interest on the 2002A Bonds, the 2003A Bonds and the 2007A Bonds when due has not been made, or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the 2002A Bonds, the 2003A Bonds and the 2007A Bonds, but in no event shall the amount deposited exceed the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment by Ambac Assurance under the terms of the Surety Bond and the Issuer is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a rate of 2% over the prime rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Issuer is subordinate to the Issuer's obligations with respect to the 2002A Bonds, the 2003A Bonds and the 2007A Bonds.

In the event the amount on deposit or credited to the Special Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Special Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Special Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Special Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from the Revenue Fund in

the order of priority provided in "THE 2007A BONDS — Flow of Funds" herein and; (ii) after all such amounts are paid in full, amounts necessary to fund the Special Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

***Moral Obligation Pledge of the State of Wisconsin.*** The State has pledged its moral obligation to replenish the Special Debt Service Reserve Fund in an amount necessary to restore the Special Debt Service Reserve Fund to the Special Debt Service Reserve Fund Requirement. Section (5r)(j) of the Act defines the Moral Obligation Pledge as follows:

If at any time of valuation the special debt service reserve fund requirement under par. (h) for a special debt service reserve fund exceeds the amount of moneys in the special debt service reserve fund, the authority shall certify to the secretary of administration, the governor and the joint committee on finance the amount necessary to restore the special debt service reserve fund to an amount equal to the special debt service reserve fund requirement under par. (h) for the special debt service reserve fund. If this certification is received by the secretary of administration in an even-numbered year prior to the completion of the budget compilation under s. 16.43, the secretary shall include the certified amount in the budget compilation. In any case, the joint committee on finance shall introduce in either house, in bill form, an appropriation of the amount so certified to the appropriate special debt service reserve fund of the authority. Recognizing its moral obligation to do so, the legislature hereby expresses its expectation and aspiration that, if ever called upon to do so, it shall make this appropriation. This paragraph applies only to bonds issued under, and in compliance with, this subsection.

It is the opinion of Co-Bond Counsel that such provisions of the Act do not constitute a legally enforceable obligation nor create a debt on behalf of the State.

As a condition to the issuance of the 2007A Bonds, the Secretary of the Department of Administration of the State will have certified that the 2007A Bonds have been issued under Section (5r) of the Act.

## **BOND INSURANCE**

Concurrently with the issuance and delivery of the 2007A Bonds, Ambac Assurance Corporation ("Ambac Assurance") will issue a financial guaranty insurance policy (the "2007A Financial Guaranty Insurance Policy") insuring payment of the principal of and interest on the 2007A Bonds.

The following information has been furnished by Ambac Assurance for use in this Official Statement. No representation is made by the Issuer or the Underwriters as to the accuracy, completeness or adequacy of that information or as to the absence of material adverse changes in that information or in the condition of Ambac Assurance, subsequent to the date hereof. Reference is made to **APPENDIX D** for a specimen of the 2007A Financial Guaranty Insurance Policy.

### **Payment Pursuant to 2007A Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue the 2007A Financial Guaranty Insurance Policy effective as of the date of issuance of the 2007A Bonds. Under the terms of the 2007A Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2007A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the 2007A Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2007A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The 2007A Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2007A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2007A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2007A Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the 2007A Bonds, the insured payments with respect to the 2007A Bonds will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the 2007A Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a 2007A Bond that has become Due for Payment and that is made to a Bondowner by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The 2007A Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the 2007 Financial Guaranty Insurance Policy). Specifically, the 2007A Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, the Paying Agent or the Bond Registrar, if any.

If it becomes necessary to call upon the 2007A Financial Guaranty Insurance Policy, payment of principal requires surrender of 2007A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2007A Bonds to be

registered in the name of Ambac Assurance to the extent of the payment under the 2007A Financial Guaranty Insurance Policy. Payment of interest pursuant to the 2007A Financial Guaranty Insurance Policy requires proof of Bondowner entitlement to interest payments and an appropriate assignment of the Bondowner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the Owner of the 2007A Bond or right to payment of principal or interest on such 2007A Bond and will be fully subrogated to the surrendering Bondowner's rights to payment.

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the 2007A Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the 2007A Bonds or the advisability of investing in the 2007A Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "**BOND INSURANCE**".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

## **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

## **THE 2007A BONDS**

### **Maturities and Interest Rates**

The 2007A Bonds will mature on the dates and in the amounts shown on the inside front cover, but will be subject to mandatory and optional redemption as described below under "**Redemption of 2007A Bonds Prior to Maturity.**"

The 2007A Bonds will bear interest at the rates shown on the inside front cover. Interest is payable semi-annually on the first day of each February and August, commencing August 1, 2007, and as to particular 2007A Bonds, on the redemption date thereof. Interest will be calculated on the basis of a 360-day year made up of twelve 30-day months.

### **Flow of Funds**

The Trustee will deposit all Intradistrict Aid received by it into the Revenue Fund created by the Indenture. The Trustee is required to transfer and apply the moneys in the Revenue Fund in the following order of priority:

1. For deposit into the Bond Fund—an amount which, when added to the amount then on deposit therein, is equal to all principal and interest scheduled to become due on the Bonds during the one-year period following such transfer;
2. For payment ratably to the issuers of any Debt Service Reserve Fund Sureties—the amounts necessary to reimburse them (with interest to the extent provided for) for draws on the Debt Service Reserve Fund Sureties;
3. For deposit into the Reserve Fund—an amount equal to the amount of any deficiency therein at the time of such transfer;
4. For deposit into the Special Debt Service Reserve Fund—an amount equal to the amount of any deficiency therein at the time of such transfer;
5. For payment to the State—the amount necessary to reimburse the State (with interest to the extent provided for) for any payments made by the State pursuant to the Moral Obligation Pledge;
6. For deposit into the Administrative Fund—the amount certified in a certificate signed by MPS and filed with the Trustee as necessary to pay Administrative Expenses during the one-year period following the date of such transfer;
7. For deposit into the Redemption Fund—the amount certified in a certificate signed by MPS and filed with the Trustee as necessary to make any optional redemption payments of Bonds during the one-year period following the date of such transfer; and
8. For payment to MPS—an amount equal to the entire remaining balance in the Revenue Fund.

See "**SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS – Intradistrict Aid**" herein for a description of how the Intradistrict Aid is paid annually.

#### **Redemption of 2007A Bonds Prior to Maturity**

The 2007A Bonds are not subject to mandatory and optional redemptions prior to maturity except as described below:

***Optional Redemption.*** The 2007A Bonds maturing on or after August 1, 2018 are subject to redemption, at the option of MPS, in whole or in part (in multiples of \$5,000), on any date commencing August 1, 2017. The Redemption Price for any such redemption shall be 100% of the principal amount of the 2007A Bonds or portions thereof so redeemed, plus accrued interest to the Redemption Date, without premium. If less than all Outstanding 2007A Bonds are to be so redeemed, the particular 2007A Bonds or portions thereof to be redeemed will be selected from such stated maturities as MPS may elect (or, in the absence of such an election, in the inverse order of their stated maturity dates) and within a stated maturity by lot or by such other random means as MPS will determine in its discretion. Any such means of selecting 2007A Bonds for redemption will provide for the possibility of partial redemption of any 2007A Bond of a denomination greater than the smallest authorized denomination.

***Optional Redemption Upon Determination of Taxability.*** The 2007A Bonds shall be subject to redemption, at the option of MPS, in whole or in part (in multiples of \$5,000),

following the date on which a Determination of Taxability (as defined in APPENDIX C hereto) occurs. The Redemption Price shall be 100% of the principal amount of the 2007A Bonds so redeemed, plus accrued interest to the Redemption Date, without premium. The 2007A Bonds are not subject to mandatory redemption in the event a Determination of Taxability occurs. If less than all Outstanding 2007A Bonds are to be so redeemed, the aggregate principal amount available for redemption will be allocated among the various maturities of Outstanding 2007A Bonds in the proportions (as nearly as practicable given the minimum authorized denomination) that the principal amount of Outstanding 2007A Bonds of each particular maturity bears to the aggregate principal amount of all Outstanding 2007A Bonds. If less than all Outstanding 2007A Bonds of a particular maturity are to be so redeemed, the particular 2007A Bonds or portions thereof of such maturity to be redeemed will be selected by the Trustee by lot or by such other random means as determined by MPS.

**Mandatory Sinking Fund Redemption.** The 4.000% Term Bonds maturing August 1, 2023, are subject to mandatory redemption prior to maturity on the dates and in the amounts set forth in the following table. The redemption price shall be 100% of the principal amount of the Term Bonds so redeemed plus interest accrued to the redemption date and without premium:

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u>
2022	\$ 10,015,000
2023 <sup>(a)</sup>	10,880,000

<sup>(a)</sup> Stated Maturity

**Purchase and Cancellation of 2007A Bonds.** MPS shall have the right to purchase any outstanding 2007A Bond and deliver it to the Trustee for cancellation. Also, the Trustee may purchase any outstanding 2007A Bond for cancellation in accordance with the provisions of the Indenture pertaining to discharge. Any such purchase and cancellation of a 2007A Bond will ipso facto reduce the unpaid principal balance of the 2007A Note on the date of such cancellation by an amount equal to the unpaid principal amount of such purchased 2007A Bond.

**Notice of Redemption; Selection of 2007A Bonds for Partial Redemptions**

If any 2007A Bonds are to be redeemed, notice of their call shall be given by mailing of a redemption notice by first-class mail at least 30 days but not more than 60 days prior to the date fixed for redemption to the Owner of each of the 2007A Bonds to be redeemed. Such redemption notice shall: (1) identify the 2007A Bonds or portions to be redeemed by name (including series designation), CUSIP number, date of issue, interest rate and maturity date and, if only a portion of the 2007A Bonds are to be redeemed, the certificate numbers and the respective principal amounts to be redeemed, (2) identify the Redemption Date, (3) state the Redemption Price, (4) state that the interest on the 2007A Bonds or the portions thereof called for redemption will cease to accrue from and after the Redemption Date if funds sufficient for their redemption and available for the purpose are on deposit with the Trustee on the Redemption Date, and (5) state that payment for the 2007A Bonds will be made on the Redemption Date at the principal trust office of the Trustee during normal business hours upon the surrender of the 2007A Bonds to be redeemed. Such redemption notice shall be sent to the address shown on the Bond Register; provided, however, that failure to give any such notice as aforesaid or any defect therein with respect to any particular 2007A Bond shall not affect the validity of any proceedings for the redemption of any other 2007A Bond. On and after the Redemption Date specified in the notice,

unless there is a default in payment of the Redemption Price, the 2007A Bonds, or portions thereof, thus called shall not bear interest, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture and the Owners thereof shall have the right only to receive the Redemption Price thereof plus accrued interest thereon to the date fixed for redemption.

While the 2007A Bonds are in the book-entry-only system, DTC, as the Owner, will receive the redemption notice referred to above. The Issuer, MPS and the Trustee are not responsible for DTC providing notice of the redemption of the 2007A Bonds to Direct Participants, Indirect Participants and Beneficial Owners (each as hereinafter defined), and in the case of a partial redemption, are not responsible for the allocation of the 2007A Bonds to be redeemed among the Direct Participants, Indirect Participants and Beneficial Owners. See "**BOOK-ENTRY-ONLY SYSTEM**" herein.

### **SOURCES AND USES OF FUNDS**

Set forth below is a summary of the sources and uses of funds related to the 2007A Bonds:

Sources of Funds:

Principal Amount of the 2007A Bonds	\$31,865,000.00
Deposit from 2003A Bond Fund	<u>22,800.00</u>
Total Sources of Funds	\$31,887,800.00

Uses of Funds:

Escrow Deposit	\$30,982,607.34
Original Issue Discount	338,502.75
Issuance Expenses <sup>(1)</sup>	<u>566,689.91</u>
Total Uses of Funds	\$31,887,800.00

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(1) Includes underwriters' discount, legal, accounting, consulting, printing and other costs of issuing the 2007A Bonds, and the premiums for bond insurance and for the Surety Bond.

### **REFUNDING**

MPS will use the proceeds of the 2007A Bonds to (a) refund the August 1, 2020 through August 1, 2023 maturities of the 2003A Bonds (collectively, the "Refunded Obligations"), and (b) pay various costs of issuing and selling the 2007A Bonds.

A portion of the 2007A Bond proceeds will be deposited into an Escrow Account created pursuant to an Escrow Agreement, dated February 1, 2007 (the "Escrow Agreement"), by and among the Issuer, MPS and The Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent"). Monies in the Escrow Account will be used to acquire certain direct obligations of the United States Treasury ("Government Obligations"). The principal of and interest on the Government Obligations, together with any beginning cash balance held in the

Escrow Account, will be sufficient to pay the regularly scheduled principal of and interest on the Refunded Obligations to the redemption date.

The Refunded Obligations are identified in the table set forth below. The plan of financing provides for the redemption of the 2003A Bonds being refunded at 100% of par on August 1, 2013.

<b>2003A Bonds Being Refunded</b>		
<u>Principal Amount</u>	<u>Maturity (August 1)</u>	<u>CUSIP</u>
\$ 5,785,000	2020	60242N CS8
6,270,000	2021	60242N CT6
10,730,000	2022	60242N CU3
6,475,000 <sup>(1)</sup>	2023	60242N CV1

(1) The principal amount of the August 1, 2023 maturity of the 2003A Bonds currently outstanding is \$11,575,000. On or about February 1, 2007 the Issuer expects to redeem \$5,100,000 principal amount of that maturity of the 2003A Bonds. The remaining balance of the August 1, 2023 maturity of the 2003A Bonds is being advanced refunded pursuant to the Refunding.

The accuracy of the mathematical computations of the adequacy of cash and securities to be held in the Escrow Account, together with the interest to be earned thereon, to pay the principal of and interest on the Refunded Obligations according to the schedule established in the Escrow Agreement, and the yield computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code, will be verified by Grant Thornton LLP (the "Verification Agent").

#### **ANNUAL DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE**

Set forth below is a summary of the actual debt service on the 2002A Bonds, the 2003A Bonds and the 2007A Bonds, with debt service coverage projections:

Fiscal Year End (June 30)	Debt Service					Projected Coverage <sup>(4)</sup>
	<u>Intradistrict Aid<sup>(1)</sup></u>	<u>2002A Bonds</u>	<u>2003A Bonds<sup>(2)</sup></u>	<u>2007A Bonds<sup>(3)</sup></u>	<u>Total Bonds</u>	
2007	\$32,919,256	\$ 1,510,170	\$ 799,757	\$ 0	\$ 2,309,927	14.25
2008	32,919,256	2,286,345	2,616,504	1,260,985	6,163,834	5.34
2009	32,919,256	2,571,985	3,455,249	1,260,985	7,288,219	4.52
2010	32,919,256	2,872,980	4,055,288	1,260,985	8,189,253	4.02
2011	32,919,256	2,898,610	4,107,081	1,260,985	8,266,676	3.98
2012	32,919,256	2,968,270	4,245,613	1,260,985	8,474,868	3.88
2013	32,919,256	3,045,400	4,399,119	1,260,985	8,705,504	3.78
2014	32,919,256	3,118,796	4,542,476	1,260,985	8,922,258	3.69
2015	32,919,256	3,192,785	4,690,879	1,260,985	9,144,649	3.60
2016	32,919,256	3,267,054	4,848,636	1,260,985	9,376,675	3.51
2017	32,919,256	3,345,686	5,000,324	1,260,985	9,606,995	3.43
2018	32,919,256	3,427,613	5,159,609	1,260,985	9,848,206	3.34
2019	32,919,256	3,506,472	5,326,672	1,260,985	10,094,129	3.26
2020	32,919,256	3,587,784	5,494,325	1,260,985	10,343,094	3.18
2021	32,919,256	3,677,397		6,449,153	10,126,549	3.25
2022	32,919,256	3,764,578		6,626,560	10,391,138	3.17
2023	32,919,256			10,650,500	10,650,500	3.09
2024	32,919,256			11,097,600	11,097,600	2.97
Totals		\$49,041,925	\$58,741,530	\$51,216,618	\$159,000,072	

- (1) The Intradistrict Aid Base Amount is assumed for purposes of this table to be equal to the Base Amount for the year ending June 30, 1999, namely \$32,919,256. The actual amount of Intradistrict Aid could be lower than such amount due to Downward Adjustments, as more fully described under the heading "**SOURCE OF PAYMENT AND SECURITY FOR THE 2007A BONDS — Intradistrict Aid**" herein.
- (2) After giving effect to the Refunding and the redemption of a portion of the August 1, 2023 maturity of the 2003A Bonds.
- (3) Includes interest on the 2007A Bonds at an average coupon of 3.96% and repayments of principal at maturity as shown on the inside front cover.
- (4) Coverage may be diluted if Additional Bonds are issued or if the Enabling Legislation is amended or if there are material Downward Adjustments.

## LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the 2007A Bonds by the Issuer are subject to the approval of Foley & Lardner LLP and Gonzalez Saggio & Harlan LLP, Co-Bond Counsel, whose approving opinion will be delivered at the time of issuance of the 2007A Bonds. Certain matters will be passed upon for the Issuer and MPS by the Office of the City Attorney, and for the Underwriters by their counsel, Reinhart Boerner Van Deuren s.c.

## TAX EXEMPTION

### Federal Income Tax Opinion of Co-Bond Counsel

Foley & Lardner LLP and Gonzales Saggio & Harlan LLP are Co-Bond Counsel and are expected to deliver an opinion in substantially the form set forth in **APPENDIX E**.

The opinion of Co-Bond Counsel relies on factual representations made by various persons including the Issuer, MPS, HR Academy, Inc., the Boys & Girls Clubs of Greater Milwaukee, Inc. (together with HR Academy, Inc., the "Existing Participating Organizations"), the Underwriters, the Verification Agent and Ambac Assurance. These factual representations include, but are not limited to: certifications by MPS regarding the investment of proceeds of the 2007A Bonds; certifications by MPS and the Existing Participating Organizations regarding use of property financed with the Refunded Obligations and refinanced with proceeds of the 2007A Bonds that has occurred since the dates of issuance of the Refunded Obligations and that is reasonably expected to occur during the entire term of the 2007A Bonds; certifications by each Existing Participating Organizations concerning its qualification as an organization described in section 501(c)(3) of the Code and the extent of any "unrelated trade or business activities" as defined in Section 513(a) of the Code, in each case at all times since the date of issuance of the 2003A Bonds; and certifications by the Verification Agent as to the 2007A Bond yield and the yield on the investments held in the Escrow Account. Co-Bond Counsel has not verified these representations by independent investigation. The inaccuracy of any of these factual representations may result in interest on the 2007A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2007A Bonds.

Co-Bond Counsel's engagement with respect to the 2007A Bonds ends with the issuance of the 2007A Bonds. In the event of an examination by the Internal Revenue Service, Co-Bond Counsel is not, unless separately engaged, obligated to defend the Issuer, MPS, or the Existing Participating Organizations or the Beneficial Owners concerning the excludability of interest on the 2007A Bonds from gross income of the owners thereof for federal income tax purposes.

#### **Wisconsin Income Tax Opinion of Co-Bond Counsel**

Co-Bond Counsel will deliver a legal opinion with respect to whether the interest on the 2007A Bonds must be included in the gross income for Wisconsin income tax purposes of an Owner of a 2007A Bond under existing law in substantially the following form:

Pursuant to Section 66.1333 of the Wisconsin Statutes, as amended, the 2007A Bonds, together with interest thereon and income therefrom, are exempt from present Wisconsin income taxes. We note, however, that interest on and income from the 2007A Bonds are includable in the measure of tax for Wisconsin corporate franchise tax purposes.

#### **Original Issue Discount**

The 2007A Bonds maturing August 1, 2020, August 1, 2021 and August 1, 2023 have a price at issuance less than par (100%) ("Discount 2007A Bonds"). In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each Discount 2007A Bond, to the extent properly allocable to each owner of a Discount 2007A Bond, is excluded from gross income for federal income tax purposes to the same extent that any interest payable on such Discount 2007A Bond is or would be excluded from gross income for federal income tax purposes. The original issue discount is the excess of the stated redemption price at maturity of a Discount 2007A Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discount 2007A Bonds were sold (the "Issue Price").

Under Section 1288 of the Code, original issue discount on Discount 2007A Bonds accrues on a compound interest basis. The amount of original issue discount that accrues to an owner of a Discount 2007A Bond during any accrual period generally equals (1) the product of (a) the Issue Price of such Discount 2007A Bond plus the amount of original issue discount accrued in all prior accrual periods multiplied by (b) the yield to maturity of such Discount 2007A Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period), less (2) any interest payable on such Discount 2007A Bond during such accrual period.

The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period and will increase the owner's tax basis in such Discount 2007A Bond. The adjusted tax basis in a Discount 2007A Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale, exchange, redemption, or payment at maturity) of such Discount 2007A Bond.

Owners of Discount 2007A Bonds who did not purchase such Discount 2007A Bonds in the initial offering at the Issue Price should consult their own tax advisors with respect to the tax consequences of owning such Discount 2007A Bond.

Owners of Discount 2007A Bonds should consult their own tax advisors with respect to the state and local tax consequences of holding such Discount 2007A Bonds. It is possible that under the applicable provisions governing the determination of state and local taxes, accrued original issue discount on the Discount 2007A Bonds may be deemed to be received in the year of accrual, even though there will not be a corresponding cash payment until a later year.

#### **Risks Relating To The Tax-Exempt Status of the 2007A Bonds**

The opinion set forth under "TAX MATTERS" above is subject to the condition that the Issuer, MPS and the Existing Participating Organizations comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel will not be giving any opinion or assurance about the future activities of the Issuer or MPS or the Existing Participating Organizations or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service. Co-Bond Counsel will not be undertaking to review or to inform any person of any action after the date of issuance of the 2007A Bonds that may adversely affect the value of, or the tax status of interest on, the 2007A Bonds.

*Future Actions of the Issuer, MPS and the Existing Participating Organizations.* The Code imposes various restrictions, conditions, and requirements relating to the excludability from gross income for federal income tax purposes of interest on obligations such as the 2007A Bonds. The Issuer and MPS have covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the 2007A Bonds will not be includable in federal gross income. In addition, in their respective agreements with MPS regarding the use of certain facilities financed with proceeds of the 2003A Bonds, each of the Existing Participating Organizations has covenanted to take all such actions within its control to comply with the requirements of the Code as must be observed to avoid any loss of exemption from federal income taxation to which interest on the 2007A Bonds would otherwise be entitled. Failure by the Issuer, MPS, and the Existing Participating Organizations to comply with these covenants may result in interest on the 2007A Bonds being included in gross income for federal income tax

purposes, possibly from the date of original issuance of the 2007A Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants in the future.

*Tax-Status of Existing Participating Organizations.* Failure of each of the Existing Participating Organizations to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as organization described in Section 501(c)(3) of the Code or to operate certain of the facilities financed by the 2007A Bonds in a manner that is substantially related to its charitable purpose under Section 513(a) of the Code may result in interest payable with respect to the 2007A Bonds being includable in federal gross income, possibly from the date of the original issuance of the 2007A Bonds.

*Requirements and Procedures.* Certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement, and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the 2007A Bonds) may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Co-Bond Counsel.

*Future Legislation.* The enactment of future legislation or actions that interpret existing law may cause interest on the 2007A Bonds to be includable in the in the gross income of the owners thereof for federal income tax purposes, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of future legislation or actions that interpret existing law may also affect the market price for, or marketability of, the 2007A Bonds. A prospective purchaser of the 2007A Bonds should consult its own tax adviser concerning any pending or proposed federal tax legislation.

*Other Tax Consequences.* Although Co-Bond Counsel is of the opinion that interest on the 2007A Bonds is excludable from gross income for federal income tax purposes and is exempt from State taxation to the extent described herein, the ownership or disposition of, or the accrual or receipt of interest on, the 2007A Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such other tax consequences.

*Limited Nature of Bond Counsel Opinion.* The opinion of Co-Bond Counsel is based on current legal authorities, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the 2007A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service, or the courts, and is not a guarantee of result.

*Audit.* Any action of the Internal Revenue Service, including selection of the 2007A Bonds for examination or the course or result of such examination or an examination of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the 2007A Bonds, and may cause the Issuer, MPS, the Existing Participating Organizations, or the Beneficial Owners to incur significant expense. A Beneficial Owner may have little, if any, right to participate in an Internal Revenue Service examination of the 2007A Bonds. Moreover, those parties participating in an Internal Revenue Service examination may not be able to achieve judicial review in connection with an examination of the 2007A Bonds.

## **RATINGS**

At the request of MPS, Moody's Investors Service, Inc. ("Moody's") has issued a rating of "Aaa" for the 2007A Bonds with the understanding that upon delivery of the 2007A Bonds the 2007A Financial Guaranty Insurance Policy will be issued by Ambac Assurance. The 2007A Bonds have received an underlying rating of "A1" from Moody's.

Any explanation of the significance of such ratings may only be obtained from Moody's. MPS and Ambac Assurance have furnished certain information and materials to Moody's, which are not included in this Official Statement. MPS will pay Moody's a fee for its services in assigning the bond ratings to the 2007A Bonds. There is no assurance that the bond ratings assigned to the 2007A Bonds will be maintained for any given period of time or that they will not be lowered or withdrawn entirely if, in Moody's judgment, circumstances so warrant. Neither the Underwriters, the Issuer nor MPS have undertaken any responsibility to bring to the attention of the Bondowners any proposed revision or withdrawal of a bond rating for the 2007A Bonds or to oppose any such proposed revision or withdrawal. Any downward revision in or withdrawal of a bond rating for the 2007A Bonds may have an adverse effect on the market price or marketability of the 2007A Bonds.

## **UNDERWRITING**

The Underwriters have agreed to purchase the 2007A Bonds at an aggregate purchase price of \$31,290,256.25 (\$31,865,000 par amount, less original issue discount of \$338,502.75, less Underwriters' discount of \$236,241.00) pursuant to the Bond Purchase Agreement dated January 11, 2007, as accepted by MPS and the Issuer. The Underwriters reserve the right to join with dealers and other Underwriters in offering the 2007A Bonds to the public. The obligation of the Underwriters to accept delivery of the 2007A Bonds is subject to various conditions in the Bond Purchase Agreement.

The 2007A Bonds may be offered and sold to certain dealers and others at prices lower than the offering prices stated on the inside cover hereof. The offering prices may be changed from time to time.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with certain amendments to Rule 15c2-12 of the Securities and Exchange Commission, MPS has agreed, pursuant to a Continuing Disclosure Agreement, to provide to certain parties annual financial information with respect to MPS and notices of certain material events. This undertaking may be enforced by any beneficial or registered owner of 2007A Bonds, but MPS's failure to comply with this undertaking will not be a default under the Indenture.

## **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the 2007A Bonds. The 2007A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2007A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2007A Bonds (in denominations of any integral multiple of \$5,000) under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007A Bonds will be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2007A Bonds, except in the event that the use of the book-entry system for the 2007A Bonds is discontinued.

To facilitate subsequent transfers, all 2007A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to

Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2007A Bonds, such as redemptions, defaults and proposed amendments to the security documents.

Redemption notices shall be sent to DTC. If less than all of the 2007A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to 2007A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2007A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2007A Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered to Bondowners and the provisions described below under "**Discontinuance of Book-Entry-Only System**" shall apply.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system is based on information provided by DTC. No representation is made by the Issuer, MPS or the Underwriters as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Issuer, MPS or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Issuer, the Trustee, MPS nor the Underwriters will have any responsibility or liability for the failure of DTC, DTC Participants or Indirect Participants to make any payment or give any notice to a Beneficial Owner in respect of the 2007A Bonds, or for any error or delay relating thereto.

Neither the Issuer, MPS nor the Trustee will have any responsibility or obligation to any DTC Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (i) the 2007A Bonds, (ii) the accuracy of any records maintained by DTC or any DTC Participant or Indirect Participant, (iii) the payment by DTC or any DTC Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the 2007A Bonds, (iv) the delivery by DTC or any DTC Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to Bondowners, (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2007A Bonds, or (vi) any other action taken by DTC as Bondowner.

The Issuer, MPS and the Trustee cannot and do not give any assurances that DTC, the DTC Participants or the Indirect Participants will distribute to the Beneficial Owners of the 2007A Bonds (i) payments of principal or redemption price of or interest on the 2007A Bonds, (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in 2007A Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Owner of the 2007A Bonds, or that they will do so on a timely basis or that DTC Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

#### **Discontinuance of Book-Entry-Only System**

As described above, the use of the system of book-entry transfers may be discontinued at any time. In such event, Bond certificates would be printed and delivered in accordance with the direction of DTC, which is the registered owner of the 2007A Bonds. It is anticipated that each Participant will instruct DTC on the registration, and DTC will, in turn, instruct the Trustee. The agreement between each Participant and the Beneficial Owner will determine what instructions are given to DTC, and the agreement between each Participant and DTC will determine what instructions are given to the Trustee. Upon such instruction, the following provisions would apply:

**Denominations, Transfer of 2007A Bonds.** The 2007A Bonds are issuable as fully registered bonds in denominations of any integral multiple of \$5,000. The 2007A Bonds are transferable or exchangeable for 2007A Bonds of different authorized denominations upon presentation at the principal corporate trust office of the Trustee duly endorsed for transfer or accompanied by a written assignment acceptable to the Trustee and duly executed by the registered owner or such owner's authorized legal representative. The person in whose name a 2007A Bond is registered will be deemed the Owner thereof for all purposes of the Indenture. The Trustee is not required to register the transfer of or to exchange any 2007A Bond (i) during the 15 days next preceding the mailing of any redemption notice, or (ii) after such 2007A Bond has been selected for redemption. The Bondowner requesting any registration of transfer or exchange of 2007A Bonds shall pay any resulting tax or other governmental charge. In the event any 2007A Bond is mutilated, lost, stolen or destroyed, the Issuer may execute and the Trustee may authenticate a new 2007A Bond of like date, maturity interest rate and denomination in accordance with the provisions therefor in the Indenture, and the Issuer and the Trustee may charge the Owner of such 2007A Bond with their reasonable fees and expenses in this connection and may also require satisfactory indemnity in the case of 2007A Bonds lost, stolen or destroyed.

***Manner of Payment.*** Except in the case of interest in default, interest will be paid on each interest payment date by check or by wire transfer to any depository or any bank in the continental United States for an Owner of \$1,000,000 or more in aggregate principal amount of 2007A Bonds who, by written request delivered to the Trustee no later than the Record Date for payment, has made such request, payable to the order of the persons in whose names the 2007A Bonds were registered at the close of business on the record date for such interest. The record date for each interest payment date shall be the 15th day of the month (whether or not a Business Day) immediately preceding such interest payment date. Interest in default will be paid in any lawful manner, at the discretion of the Trustee. Principal of and premium, if any, on the 2007A Bonds payable at maturity or upon proceedings for redemption thereof shall be payable to the registered owners thereof upon presentation and surrender of the 2007A Bonds at the Trustee's principal office.

### **Registration, Transfer and Exchange**

The 2007A Bonds will be issued only as fully registered bonds without coupons in the denominations of \$5,000 or any multiples of \$5,000 within any maturity. Any 2007A Bond may be transferred upon its presentation at the principal trust office of the Trustee if it has been duly endorsed for transfer or is accompanied by a written instrument of transfer satisfactory to the Trustee which has been executed by the Owner. 2007A Bonds may be exchanged for other 2007A Bonds by surrendering the 2007A Bonds to be exchanged at the principal trust office of the Trustee. The Trustee will exchange any 2007A Bond so presented by making an appropriate entry in the Bond Register and delivering to the Owner presenting such 2007A Bond for exchange one or more new 2007A Bonds which are in an authorized denomination and have the same form, terms, interest rate, maturities and aggregate principal amount as the 2007A Bond being exchanged. The Trustee shall require the payment by the Bondowner requesting such exchange or transfer of any resulting tax or other governmental charge required to be paid with respect to such exchange or transfer but shall not otherwise charge the Bondowner for such exchange or transfer. The Trustee is not required to register, transfer, exchange or replace any 2007A Bond (i) during the 15-day period immediately preceding the first mailing of a notice of redemption with respect to 2007A Bonds of the same maturity, or (ii) after a 2007A Bond has been called for redemption.

### **FINANCIAL ADVISOR**

The Issuer has retained Public Financial Management, Inc., Milwaukee, Wisconsin, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2007A Bonds. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the 2007A Bonds.

**MISCELLANEOUS**

The references herein to the 2007A Bonds, the Indenture, the 2007A Note and the Loan Agreement are brief outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of such provisions, reference is made to such documents. Copies of the documents mentioned under this heading are available for inspection at the offices of the Issuer and following delivery of the 2007A Bonds will be available for inspection at the offices of the Trustee.

It is anticipated that CUSIP identification numbers will be printed on the 2007A Bonds, but neither the failure to print such numbers on any 2007A Bond nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any 2007A Bonds.

The attached appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

MPS has reviewed the information contained herein (including the appendices hereto) which relates to them, their property and the plan of finance, and have approved all such information for use within the Official Statement.

The execution and delivery of this Official Statement have been duly authorized by MPS.

This Official Statement is approved:

MILWAUKEE BOARD OF SCHOOL  
DIRECTORS

  
By: /s/ Joseph Dannecker

Joseph Dannecker, President

  
By: /s/ William G. Andrekopoulos

William G. Andrekopoulos, Superintendent

## MISCELLANEOUS

The references herein to the 2007A Bonds, the Indenture, the 2007A Note and the Loan Agreement are brief outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of such provisions, reference is made to such documents. Copies of the documents mentioned under this heading are available for inspection at the offices of the Issuer and following delivery of the 2007A Bonds will be available for inspection at the offices of the Trustee.

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MILWAUKEE BOARD OF SCHOOL  
DIRECTORS

By: /s/ Joseph Dannecker  
Joseph Dannecker, President

By: /s/ William G. Andrekopoulos  
William G. Andrekopoulos, Superintendent

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## APPENDIX A

### MILWAUKEE PUBLIC SCHOOLS

#### General

The following information in this Appendix A comes from official statements of previous bond issues of the City of Milwaukee (the "City") and from other sources believed to be reliable. The information is not provided to describe the security for the 2007A Bonds, but rather provided to illustrate how the Milwaukee Board of School Directors ("MPS") has historically financed its capital and programmatic needs. The information is not intended to be a complete description of the operations of MPS.

MPS was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. MPS provides elementary, secondary, vocational and special education services for grades K4 through 12. MPS' boundaries are coterminous with those of the City. MPS is effectively treated by Wisconsin Statutes as a City department authorized by law to adopt its own budget. The City is required to levy and collect property taxes to support the MPS budget. All funds for MPS flow through the City Treasurer who, as the custodian of such funds by Statute, disburses them at the direction of the Superintendent/Auditing Officer of MPS. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City.

#### Financial Information and Budget Process

MPS has full control of all expenditures and revenues required for its operation. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve MPS schools. The City's Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund.

MPS's Comprehensive Annual Financial Report ("CAFR") for the year ended June 30, 2006 can be found at:

[http://mpsportal.milwaukee.k12.wi.us/portal/server.pt/gateway/PTARGS\\_0\\_2\\_18833\\_0\\_0\\_18/CAFR\\_%202006.pdf](http://mpsportal.milwaukee.k12.wi.us/portal/server.pt/gateway/PTARGS_0_2_18833_0_0_18/CAFR_%202006.pdf).

#### Borrowing – General Obligation Debt

MPS does not have authority to issue debt. The City has the authority under Chapters 67 and 119, Wisconsin Statutes to issue municipal obligations for specific school purposes – including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. As shown below, as of August 1, 2006, the City had outstanding general obligation debt for school purposes of \$126,497,913. The City also has authorized but unissued general obligation debt for school purposes. (See "Borrowing – Future Financing" below.)

**City of Milwaukee  
Outstanding General Obligation Debt Issues  
for School Purposes  
as of August 1, 2006**

Year Ending December 31	Principal	Interest <sup>(1)</sup>	Total
2006	\$7,369,303	\$2,676,302	\$10,045,605
2007	11,451,029	5,065,502	16,516,531
2008	11,070,969	4,541,256	15,612,225
2009	9,889,807	4,024,286	13,914,093
2010	9,490,549	3,538,033	13,028,582
2011	9,100,758	3,056,127	12,156,885
2012	7,973,776	2,612,060	10,585,836
2013	7,350,472	2,205,097	9,555,569
2014	7,866,669	2,653,530	10,520,199
2015	7,309,211	2,897,329	10,206,539
2016	9,023,763	2,491,982	11,515,745
2017	7,106,724	2,791,419	9,898,142
2018	6,016,970	2,404,506	8,421,476
2019	5,875,678	2,923,997	8,799,675
2020	5,016,322	3,075,678	8,092,000
2021	1,433,148	2,771,852	4,205,000
2022	1,684,005	3,630,995	5,315,000
2023	1,468,761	3,486,239	4,955,000
<b>Total</b>	<b>\$126,497,913</b>	<b>\$56,846,189</b>	<b>\$183,344,101</b>

Source: City of Milwaukee Comptroller's office.

(1) Compound interest is included in year paid.

As stated above, the City has the general authority to incur debt for the benefit of MPS. Section 67.03 of the Wisconsin Statutes limits direct general obligation borrowing by the City to 5% of the equalized valuation of taxable property in the City. Section 119.49 of the Wisconsin Statutes authorizes additional indebtedness for school purposes only in an amount equal to 2% of the equalized valuation of taxable property in the City. The following table shows the total unused debt margin for the City, separating indebtedness subject to the 5% limit from indebtedness subject to the 2% limit.

## Total Unused Debt Margin for the City of Milwaukee

Equalized Value of Taxable Property in the City		\$30,226,985,500
Legal Debt Limitation for City Borrowing		
5% of Equalized Value		\$1,511,349,275
General Obligation Debt Outstanding subject to 5% Limit as of 12/20/06		
	\$853,580,000	
Less: Provision for current year maturities	<u>(6,390,000)</u>	
Net General Obligation Debt Outstanding subject to the 5% Limit as of 12/20/06		\$847,190,000
Total Debt Margin for City Borrowing (in Dollars)		\$664,159,275
(As a percentage)		43.9%
(As a percentage excluding \$66 million of Cash Flow Notes issued in April 2006)		48.3%
Legal Debt Limitation for School Purpose Borrowing		
2% of Equalized Value		\$604,539,710
General Obligation Debt Outstanding subject to 2% Limit as of 12/20/06		
	14,774,150	
Less: Provision for current year maturities	<u>0</u>	
Net General Obligation Debt Outstanding subject to the 2% Limit as of 12/20/06		\$14,774,150
Total Debt Margin for School Purpose Borrowing (in Dollars)		\$589,765,560
(As a percentage)		97.6%

Source: City of Milwaukee Comptroller's office.

### History of Full Valuation in The City of Milwaukee (2002-2006)

<u>Levy Year</u>	<u>Collection Year</u>	<u>Full Valuation</u>	<u>Percent Increase/Decrease</u>
2002	2003	\$20,298,387,000	+4.34%
2003	2004	21,730,754,000	+7.06%
2004	2005	23,491,773,700	+8.10%
2005	2006	26,256,713,800	+11.77%
2006	2007	30,226,985,500	+15.12%

Source: City of Milwaukee Comptroller's office.

### Borrowing – Revenue Bonds

The following sections provide information on outstanding revenue obligations

(other than the 2002A Bonds and the 2003A Bonds which are described in the front portion of this Official Statement) issued by the Issuer for school purposes.

West Wisconsin Avenue and North Martin Luther King Drive Project. On November 8, 1990, \$47,730,866 Redevelopment Authority of the City of Milwaukee (the "Authority") revenue bonds (the "1990 Bonds") were issued on behalf of the Wisconsin Preservation Fund, Inc. to acquire and renovate several facilities for lease and occupancy by MPS which is utilizing the facilities as middle schools, K-8 elementary schools and various common facilities related to public education. The Authority subsequently issued \$39,415,000 Development Revenue Refunding Bonds, dated April 15, 1993 (the "1993 Bonds"), to advance refund certain 1990 Bonds. On May 15, 2003, \$34,475,000 Authority Revenue Bonds (the "Refunding Bonds") were issued to effect the current refunding of the 1993 Bonds and to pay certain issuance expenses. The Refunding Bonds are guaranteed as to principal and interest payments by the municipal bond insurance policy issued by Financial Security Assurance, Inc.

The Refunding Bonds do not constitute general obligations of MPS or the City and shall not constitute or give rise to a charge against MPS' or the City's taxing powers. MPS does, however, have an obligation to pay rents under a lease to support the debt service on these revenue bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by MPS from its School Operations Fund. MPS' obligations under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments.

The schedule of remaining lease payments after taking into account the 2003 refinancing are as follows:

**Redevelopment Authority of the City of Milwaukee  
Development Revenue Refunding Bonds  
(2430 West Wisconsin Avenue Project and  
1600 North Martin Luther King Drive Project)  
Lease Payments as of October 1, 2006**

Year Ending <u>June 30</u>	Lease <u>Payments</u>	Year Ending <u>June 30</u>	Lease <u>Payments</u>
2007	\$3,504,236	2011	\$3,909,313
2008	3,906,573	2012	3,908,325
2009	3,910,973	2013	3,908,475
2010	3,908,763	2014	3,910,900

Congress, Craig and Fratney Projects. On November 17, 2005, the Authority issued \$12,415,000 of its Revenue Bonds, Series 2005A and loaned the proceeds to MPS to partially fund the construction of additions, renovations and improvements to three MPS schools. MPS has an obligation to pay rents under a lease to support the debt service on these revenue bonds. The schedule of lease payments for this lease transaction are as follows:

**Redevelopment Authority of the City of Milwaukee  
Redevelopment Lease Revenue Bonds, Series 2005A  
(Congress, Craig and Fratney Schools)  
Debt Service Payments as of October 1, 2006**

Fiscal Year	Principal	Interest	Total
2007		\$260,831	\$260,831
2008	\$150,000	519,300	669,300
2009	480,000	509,138	989,138
2010	495,000	492,923	987,923
2011	515,000	475,366	990,366
2012	530,000	456,420	986,420
2013	550,000	436,028	986,028
2014	575,000	413,940	988,940
2015	595,000	390,243	985,243
2016	620,000	365,180	985,180
2017	645,000	338,609	983,609
2018	675,000	310,221	985,221
2019	705,000	280,030	985,030
2020	735,000	248,166	983,166
2021	770,000	214,488	984,488
2022	805,000	178,648	983,648
2023	845,000	140,698	985,698
2024	880,000	101,683	981,683
2025	925,000	61,521	986,521
2026	920,000	20,470	940,470
	<u>\$12,415,000</u>	<u>\$6,213,903</u>	<u>\$18,628,903</u>

Source: City of Milwaukee Comptroller's office.

\*The 2026 maturity is to be paid from the Debt Service Reserve Fund.

*Pension Obligation Bonds.* In December 2003, the Authority issued its \$146,569,122 Taxable Pension Funding Bonds, 2003 Series C and 2003 Series D (Milwaukee Public Schools) (the "Pension Bonds"). The Authority loaned the proceeds of the Pension Bonds to MPS, which, together with the proceeds of a general obligation note issue issued by the City, were used to retire MPS's unfunded actuarial accrued liability owed to the Wisconsin Retirement System with respect to retirement benefits for MPS employees. MPS is obligated to make payments to the Authority sufficient to pay the principal of and interest on the Pension Bonds, subject to annual appropriation. MPS's repayment obligation is payable solely from and secured by a pledge of monies in the School Operations Fund. MPS has also pledged certain State Aid payments received by MPS from the State to secure the payment of debt service.

The 2003 Series D Pension Bonds were issued as variable rate securities. The City, on behalf of MPS, entered into Interest Rate Exchange Agreements to synthetically fix the interest rate payable for the entire term of the Pension Bonds. The schedule of

loan payments, after taking into account the Interest Rate Exchange Agreements, are as follows:

**Redevelopment Authority of the City of Milwaukee  
Taxable Pension Funding Bonds  
(Milwaukee Public Schools)  
Annual Loan Payments as of October 1, 2006**

Year ending June 30	Loan Payments	Year ending June 30	Loan Payments	Year ending June 30	Loan Payments
2007	\$7,342,885	2020	\$7,342,885	2033	\$17,611,178
2008	7,342,885	2021	7,342,885	2034	17,775,553
2009	7,342,885	2022	7,342,885	2035	18,689,928
2010	7,342,885	2023	7,342,885	2036	19,239,303
2011	7,342,885	2024	13,476,010	2037	19,559,613
2012	7,342,885	2025	13,198,983	2038	20,416,793
2013	7,342,885	2026	14,305,553	2039	20,843,973
2014	7,342,885	2027	14,124,928	2040	21,671,153
2015	7,342,885	2028	15,184,302	2041	8,673,333
2016	7,342,885	2029	15,628,678	2042	7,125,513
2017	7,342,885	2030	15,593,053	2043	6,777,693
2018	7,342,885	2031	16,592,428	2044	6,183,269
2019	7,342,885	2032	16,651,803		

Source: City of Milwaukee Comptroller's office.

**Borrowing – Qualified Zone Academy Projects**

In December 2001, MPS entered into a \$8,590,000 Lease Purchase Agreement (2001 QZAB Project) for the purpose of purchasing and installing certain equipment for use at the Lynde and Harry Bradley Technology and Trade School. In November 2002 and in August 2003, respectively, MPS entered into a \$4,979,000 Lease and Deferred Payment Agreement (2002 QZAB Project), and \$2,650,000 Lease and Deferred Payment Agreement (2003 QZAB Project) and in December 2005, MPS entered into a \$2,021,000 Lease and Deferred Payment Agreement (2005 QZAB Project) for the purpose of constructing certain improvements to, and purchasing and installing certain equipment for use at, various MPS schools. MPS entered into QZAB Agreements with each Investor, under which MPS makes annual impoundment payments which are subject to annual appropriation by MPS. The schedule of total remaining impoundment payments is as follows:

December 1	Payment Amount
2006	\$2,124,275
2007	1,048,067
2008	798,725
2009	798,725
2010	490,143
2011	226,327
2012	226,327

Source: Milwaukee Public Schools.

**Borrowing – Future Financing**

The City has \$12,000,000 of authorized, but unissued, general obligation borrowing authority for school purposes.

**Milwaukee Board of School Directors**

The Milwaukee Board of School Directors is a nine-member board, which, pursuant to Section 119.16(1m) of the Wisconsin Statutes, is charged with the possession, care, control and management of Milwaukee Public Schools facilities, operations, property and affairs. Eight directors represent and are elected by districts from within a total population of approximately 592,765. One member is elected at-large. Directors serve staggered, four-year terms, which expire in April, and annually, at the board’s organizational meeting, elect a President. The current members and the years in which their terms of office expire are as follows:

**Milwaukee Board of School Directors**

Joseph Dannecker –President	(2007)	Charlene Hardin	(2009)
Barbara P. Horton, Vice President	(2007)	Jennifer Morales	(2009)
Kenneth L. Johnson	(2007)	Jeff Spence	(2007)
Peter Blewett	(2009)	Vacant (At-Large)	(2007)
Danny Goldberg	(2009)		

The City Officials who serve in identical or similar capacities for MPS, and the year in which their terms of office expire, are as follows:

**City / MPS Officials**

W. Martin Morics	Comptroller	(2008)
Grant F. Langley	City Attorney	(2008)
Wayne F. Whittow	Treasurer	(2008)

**Public Services and Facilities**

MPS has approximately 92,972 full-time equivalent students and 6,193 teachers. It maintains 116 elementary schools, 21 middle schools, 19 high schools, one K-12 school and 2 MPS alternative schools. The average age of the MPS buildings is just over 50 years. However, significant investment was made in upgrading many of these buildings in the 1970’s and 1980’s.

The purpose and responsibility of MPS is to provide an efficient educational system for children enrolled in the public schools, whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to the regular educational programs, MPS offers comprehensive programs in the areas of vocational education, special education, and bilingual education. Through its specialty school programs, MPS offers advanced educational programs in such areas as fine arts,

computer science, health professions, business, and technical trades. In addition, MPS provides community recreation and education services through its parks and centers for the elderly.

All of MPS has been accredited by the North Central Association of Colleges and Schools.

## Enrollment

<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>	<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>
1995-1996	99,278	2001-2002	99,025
1996-1997	101,622	2002-2003	99,054
1997-1998	102,914	2003-2004	98,323
1998-1999	102,097	2004-2005	96,874
1999-2000	100,682	2005-2006	94,975
2000-2001	99,332		

Source: Milwaukee Public Schools.

(1) Kindergarten 1/2 day membership converted to full day equivalents.

## Insurance

MPS carries Commercial General Liability Insurance, Auto Liability, Umbrella Excess Liability Insurance, and School Leaders Errors and Omissions Insurance. In addition, Section 893.80 of the Wisconsin Statutes, limits the amount recoverable against a political corporation, its officers, officials or employees for acts performed within the scope of their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

MPS is self-insured for health, dental, and workers' compensation benefits and certain other general liability exposures. The accrued liability for estimated self-insured claims of \$32,981,515 recorded in the School Operations Fund and \$2,627,129 in the General Long-Term Obligations Account Group represents an estimate of the amount of claims incurred, but not paid or reported as of June 30, 2005.

## Investment Policies

The City may invest any of its funds, including MPS funds, not immediately needed in accordance with Section 66.0603(2) of the Wisconsin Statutes. The City, through Common Council Resolution 930358, adopted July 6, 1993, has instructed the City Treasurer to invest City funds, including MPS funds, in: (a) Certificates of Time Deposit at approved public depositories limited to the equity capital or net worth of the financial institution with collateralization required when total deposits at any institution exceed \$500,000; (b) Repurchase Agreements with public depository institutions; (c) the State of Wisconsin Local Government Investment Pool; (d) U.S. Treasury and Agency instruments and (e) commercial paper which has a rating in the highest or second highest rating category assigned by Standard & Poor's Ratings Services, Moody's Investors Services, Inc., or some other similar nationally recognized rating agency. To the extent

possible, the City Treasurer attempts to match investments with anticipated cash flow requirements. No limits have been placed on how much of the portfolio can be invested in any of the above investment categories.

The State of Wisconsin Investment Board ("SWIB") provides the Local Government Investment Pool ("LGIP") as a subset of the State Investment Fund (the "Fund"). The LGIP includes deposits from elective participants consisting of over 1,000 municipalities and other public entities. The Fund also consists of cash balances of participants required to keep their cash balances in the Fund. These required participants include the State General Fund, State agencies and departments and Wisconsin Retirement System reserves. The LGIP portion of the Fund is additionally secured as to credit risk.

SWIB invests the assets of the Fund, which includes assets of the LGIP. Overall policy direction for SWIB is established by an independent, eight-member Board of Trustees (the "Trustees"). The Trustees establish long-term investment policies, set guidelines for each investment portfolio and monitor investment performance.

The objectives of the Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. The Fund includes retirement trust funds cash balances pending longer-term investment by other investment divisions. The Fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The Fund is managed as a mutual fund with a longer average life than a money market fund made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, Wisconsin 53707-7842.

The LGIP is a local option City depository. The City utilizes the LGIP in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of June 30, 2006, the City had approximately 31% (\$105,000,000) of its and MPS' investments deposited in the LGIP.

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## APPENDIX B

### THE NEIGHBORHOOD SCHOOLS PLAN

The Neighborhood Schools Plan (the "Program") is a plan to restructure and reform the MPS educational delivery system and improve the education provided to City of Milwaukee residents. The overall goal and primary objective of the Program is to create community-rich neighborhood schools that allow parents to be more closely involved in their child's education; and to more fully engage the entire community in meeting the needs of children, youth and families. The nature and design of the neighborhood schools is intended to ensure participation by parents, students and residents as well as voice access and active participation in a school's full operation.

MPS intends to generate cost "savings" from the Program in amounts approximating debt service on the Bonds issued to finance the Program. The primary cost savings are expected to result from a significant reduction in busing within MPS.

The aggregate transportation savings include cost reductions from both the transportation policy changes as well as the increases in neighborhood seating capacity that reduce transportation needs. The Program is intended to allow greater opportunity for parents to become actively involved in every aspect of a child's education and provide additional opportunities for parents and children to make choices and influence the curricula offered. The Program is expected to promote and allow communities and families to work together to help children succeed and make academic gains while taking pride in their communities. Community-rich schools are expected to create communities that value their children's education and regain a true sense and "culture" of neighborhoods. With the implementation of the Program, it is hoped that parents will know their children are safe and in a nurturing environment for learning. Community-rich schools will collaborate with the community for additional resources and partnerships.

The Program contemplates numerous elements to achieve the goal of creating community-rich neighborhood schools summarized as follows:

1. ***Expand Capacity.*** Expand capacity in 28 targeted elementary and six targeted middle school attendance areas, aiming to provide an opportunity for every student in these neighborhoods to have access to a high quality education close to home.

2. ***Programmatic Enhancements.*** Various programs and services will be provided including:

- a. full-day kindergarten programs for four- and five-year-old children in the 28 targeted elementary attendance areas;
- b. before and after school programs;
- c. increasing the number of kindergarten through 8th grade programs;
- d. increasing accessibility to Bilingual and English as a Second Language (ESL) programs;
- e. special education and related services to students with disabilities;

- f. program participation to reduce student-teacher ratios in the early grades;
- g. replicating specialty programs; and
- h. development of a new Parent Center.

**3. Implementation.** Measures to be employed to implement the Program include:

- a. safety plan to benefit the schools and neighborhoods;
- b. communication plan to increase community awareness and support;
- c. fiscally responsible strategies to meet the needs of Milwaukee's children and parents;
- d. revision of transportation and student assignment policies to offer all parents in Milwaukee a realistic opportunity to select a neighborhood school;
- e. creation of a school and community task force to study and make recommendations on policies and practices that affect student mobility;
- f. commitment to reflect the diversity of the Milwaukee community in the contracting, employment and educational opportunities generated by the Program;
- g. strategies for obtaining parental consent before transporting a student to a school outside the neighborhood attendance area; and
- h. proceed so that the measures proposed in the Program be, in effect, funded by transportation savings flowing from the implementation of the Program.

### **Borrowing/Plan of Finance**

The Issuer has the authority under Section 66.1333(5r) of the Act to issue and sell revenue bonds to fund the Program. The Program calls for capital expenditures of \$100,000,000 (stated in year 2000 costs). The Enabling Legislation authorized the issuance of Bonds of up to \$170,000,000; however, the Program is expected to be funded through the issuance of Bonds in an aggregate amount of \$100,000,000. MPS must obtain the approval of the Joint Finance Committee for the State prior to issuing Bonds in excess of \$100,000,000 for capital expenditures. All new operating expenses resulting from the Program are intended to be financed through changes in MPS's operations. No borrowed proceeds will be utilized for operational expenses.

The Neighborhood Schools Initiative has completed approximately 40 projects, providing approximately 5,600 neighborhood school seats. Since the inception of the Neighborhood Schools Initiative, students receiving transportation have decreased by approximately 9,100 students.

Although the State budget passed in 2000 did not provide additional funding to operate new neighborhood schools, the Enabling Legislation permits MPS to access low-cost capital that could be repaid over time from funds presently allocated to fund student transportation. The Enabling Legislation empowered MPS to pledge its Intradistrict Aid to secure debt incurred for the purpose of the Program. To help assure that the Intradistrict Aid would be predictable in amount, the legislation provides, in effect, that for so long as Bonds are outstanding, the base amount would not be less than the base amount in the 1998/1999 school year. That amount was \$32,919,256. Although that minimum base amount is subject to the downward adjustment as provided in the

Enabling Legislation, MPS intends to operate the Program in a manner such that there will be no material downward adjustments.

There can be no assurance that the Enabling Legislation will not be amended or repealed in future years. One purpose of the Moral Obligation Pledge, however, is to provide an incentive for the State Legislature not to amend the Enabling Legislation in a manner that jeopardizes the security for the Bonds.

As part of the Program, MPS calculated the cost of the Program as well as the cost savings or the "revenue" of the Program. MPS contemplates cost savings from two sources: (1) transportation savings, and (2) savings from policy changes facilitated by or occurring in conjunction with the Program. MPS will be able to utilize "savings" from reductions in busing to repay the debt incurred to build additional neighborhood school capacity. The intent is that the additional capacity will allow for a permanent reduction in busing and that, upon repayment of the Bonds, the State will experience a reduction in education-related expenses. The cost saving measures include the following efforts.

#### **Change in Half-Day K4 and K5 Funding**

In addition to busing savings, MPS has also identified other changes in operation that are intended to provide additional funds to support operational cost impacts of various program enhancements.

The largest additional cost savings are due to a change in the way the district funds half-day kindergarten. Under the previous policy of funding at the full per-pupil rate for half-day programs, there was no incentive for schools to adopt a full-day academic program. Under the Program, this allocation policy has been revised to reimburse schools based on the length of time they participate in an academic program. Schools that have students who participate in a full-day MPS K4 or half-day Head Start and half-day MPS K4 will be reimbursed at the full per-pupil weight. Schools that have students who receive only a half-day of MPS K4 will be reimbursed at one-half this amount. This is expected to result in a more equitable allocation of MPS funds and will be consistent with the State's reimbursement policy.

Moreover, by revising this policy, MPS expects to recognize savings from schools that continue to offer a half-day of academic programming. For schools that choose to continue or move to a full-day academic program from a half-day, the per-pupil allocation will not decrease, but the district will recognize savings from the reduction in mid-day busing. For the purposes of estimating the financial impact of this revised policy, it is assumed that more schools will gradually begin to offer full-day programs as a result of this new policy and to take advantage of the growing demand.

#### **Incorporate Outreach Activities in K4 Curriculum**

In addition to changing its reimbursement policy for half-day K4 programs, as part of the Program, MPS has completed efforts to increase the State funding for four-year-old

kindergarten. A half-day K4 student is now reimbursed at a rate of six-tenths of a pupil instead of the previous one-half rate if the program provides an additional 87.5 hours of outreach activities. The allowable activities focus on community and parent involvement activities and could be incorporated into the full-day K4 curriculum. As it is expected that more schools will offer full-day programs, this proposal will not only improve the academic experience for MPS four-year-olds, parents and community residents, it is expected to result in an increase in MPS revenues.

In contrast, the savings from the above policy change (for K4 and K5 funding) may decrease with increased full-day participation. In this way, the two proposals work together to ensure increased savings for the district and reduce the sensitivity of the analysis to assumptions regarding full-day participation rates.

### **Continue Categorical Funding Support**

MPS benefits from several federal funding sources that cover activities supported under this Program. Currently MPS allocates some of these funds for schools that are included in the Program. It is anticipated that these funding sources will continue and that MPS will continue to direct the funding for these purposes.

### **Projects with Community Partners**

Consistent with the Neighborhood Schools Plan vision of community-enriched schools, MPS has pursued opportunities to partner with community-based organizations to increase neighborhood seating capacity. Although such projects were not financed by 2002A Bond proceeds, a portion of the 2003A Bonds were used to finance projects developed with Participating Organizations in Qualified 501(c)(3) projects. Projects developed in this manner include the following:

**HR Academy, Inc.** HR Academy is a Wisconsin nonstock corporation, incorporated May 7, 1993. Its stated aim is to create and sustain a model partnership among a faith-based organization, a youth development agency, and a public school system through the development of a distressed site in a low-income area of Milwaukee. This project involves a school facility with approximately 420 classroom seats, located at 4834-56 North 35th Street, Milwaukee, Wisconsin. The initial owner of the facility is HR Academy, Inc., and portions of the facility are leased or otherwise used by MPS.

**Boys & Girls Clubs of Greater Milwaukee, Inc.** The Boys & Girls Clubs of Greater Milwaukee, Inc., is a Wisconsin nonstock corporation, incorporated on January 3, 1901. Its stated mission is inspiring and empowering all young people, especially those from disadvantaged circumstances, to realize their full potentials as productive, responsible and caring citizens. This project involves a school facility with approximately 572 classroom seats, located in the 2400 block of West Rogers Street, Milwaukee, Wisconsin, built adjacent to the Davis Boys & Girls Club located in that block. MPS is the owner of the school facility and Boys & Girls Clubs of Greater Milwaukee, Inc. continues to own the Boys & Girls Club facility.

**Journey House, Inc.** Journey House Inc. is a Wisconsin nonstock corporation, incorporated December, 1973. Its stated purposes are improving the educational and economic status of residents in Milwaukee's Clarke Square neighborhood, encouraging those residents to take stake in their education, families and community, and ultimately improving the standard of life on Milwaukee's near south side. The Milwaukee Public school's portion of this project has been constructed and involves a school facility with approximately 266 classroom seats, located at 1021 South 21st Street, Milwaukee, Wisconsin. The owner of the facility is MPS. Space for the use of Journey House, Inc. would be added by a future addition financed by Journey House, Inc.

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## APPENDIX C

### DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE PRINCIPAL BOND DOCUMENTS

#### DEFINITIONS OF CERTAIN TERMS

"Account" means any of the accounts established by the Indenture.

"Act" means Section 66.1333 of the Wisconsin Statutes, as amended from time to time.

"Acting Beneficiaries Upon Default" means as such term is used in the Article pertaining to defaults and remedies in the Indenture:

(a) for purposes of a default in the payment of the principal or purchase price of, premium, if any, or interest on the Bonds under the Indenture: (1) the Credit Enhancement Facility, and if no Credit Enhancement Facility is applicable, the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding and (2) any related Credit Facility Provider;

(b) for purposes of acceleration of maturity of any Promissory Note pursuant to the Loan Agreement and remedies under the Indenture, the Credit Enhancement Facility, and if no Credit Enhancement Facility is applicable, the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding;

(c) for purposes of rights to direct proceedings upon a default under the Indenture, the Credit Enhancement Facility, and if no Credit Enhancement Facility is applicable, the Owners of not less than 50% in aggregate principal amount of the Bonds Outstanding (including where applicable, the consent of any related Credit Facility Provider); and

(d) for all other purposes hereunder, the Credit Enhancement Facility, and if no Credit Enhancement Facility is applicable, the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding or any Other Beneficiary.

"Additional Bonds" means Bonds (other than the Series 2002A Bonds, the Series 2003A Bonds, and the Series 2007A Bonds) issued or to be issued under the Indenture in accordance with the Indenture pursuant to the request of the Borrower and the authorization of the Issuer.

"Additional Loans" means any loan or loans made to the Borrower pursuant to the terms of the Loan Agreement, with funds made available to the Issuer from the sale of Additional Bonds.

"Administrative Expense" means any expected administrative expenses relating to the Bonds, including but not limited to the Trustee fees as described in the Indenture and any fees of any Credit Facility Provider.

"Administrative Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Authorized Denomination" means, with respect to Bonds of a particular series, the denominations authorized therefor in the Supplemental Indenture creating such series of Bonds.

"Authorized Officials of the Borrower" means the President or the Superintendent of the Borrower.

"Bankruptcy Condition" means (1) the filing of a petition in bankruptcy by or against the Borrower or the Issuer as debtor under the United States Bankruptcy Code, 11 U.S.C. Sections 101 *et seq.*, or (2) the commencement or continuance of other judicial proceedings with respect to the Borrower or the Issuer as debtor under similar or successor federal or state bankruptcy, reorganization or insolvency laws.

"Beneficial Owner" means, with respect to a Bond which is held in Book Entry Form, the person who owns the Beneficial Ownership Interest therein, as evidenced to the satisfaction of the Trustee.

"Beneficial Ownership Interest" means the right to receive payments and notices with respect to Bonds which are held by the Depository under a Book Entry System and for which the Depository does not, pursuant to the Letter of Representations, act on behalf of the Beneficial Owner in connection with the optional or mandatory tender of Bonds pursuant to a Supplemental Indenture.

"Beneficiaries" means (1) the Owners of any Outstanding Bonds, and (2) any Other Beneficiary.

"Bond Counsel" means Independent Counsel whose legal and tax opinion on municipal bond issues is nationally recognized.

"Bond Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Bond Register" means the registration books maintained by the Trustee pursuant to the Indenture.

"Bondowners" and "Owners" (when used with reference to Bonds) means, at the time or times of determination, the persons who are registered owners of Bonds.

"Bonds" means all Bonds issued pursuant to the Indenture in accordance with the provisions of the Indenture.

"Book Entry Form" or "Book Entry System" means, with respect to the Bonds, a form or system, as applicable, under which (1) the ownership of beneficial interests in the Bonds may be transferred only through book entry and (2) physical Bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Owner, with the physical Bond certificates immobilized in the custody of the Depository.

"Borrower" means Milwaukee Board of School Directors, a body politic, organized and existing under Chapter 119 of the Wisconsin Statutes.

"Borrower's Certificate" means a certificate signed on behalf of the Borrower by Authorized Officials of the Borrower.

"Borrower's Representative" means the person or, in his or her absence, the alternate person, designated in a Borrower's Certificate (containing specimen signatures of each such person) as a person authorized to execute and deliver Requisitions, to give any notices that may be required by the Indenture or any Supplemental Indenture and to give Trust Fund investment directions on behalf of the Borrower.

"Business Day" means, except as otherwise provided in a Supplemental Indenture, a day of the year (1) other than a Saturday, a Sunday or legal holiday on which banks located in the city in which the Trustee's Principal Office is located, are required or authorized by law to remain closed or (2) on which neither the New York Stock Exchange nor the Federal Reserve Banks are closed.

"City" means the City of Milwaukee, Wisconsin.

"Cost of Issuance Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Counsel" means a person, or firm of which such a person is a member, authorized in any state to practice law.

"Credit Enhancement Facility" means, if and to the extent provided for in a Supplemental Indenture, with respect to Bonds of a particular series, an insurance policy insuring, or a letter of credit or surety bond providing a direct or indirect source of funds for, the timely payment of principal of and interest on such Bonds (but not necessarily principal due upon acceleration under the Indenture), and all agreements entered into by the Borrower or the Trustee with respect thereto, but excluding the Moral Obligation Pledge.

"Credit Facility Provider" means, if and to the extent provided for in a Supplemental Indenture, any Person or Persons engaged by the Borrower (1) pursuant to a Remarketing Agreement, to provide credit enhancement or liquidity for the Borrower's obligation to repurchase or redeem Bonds of one or more series subject to a remarketing which has not been remarketed, or (2) pursuant to a Credit Enhancement Facility, to provide credit enhancement for the payment of the principal of and interest on any or all of the Bonds of one or more series.

"Debt Service" means: (1) with respect to any Bonds, as of any particular date and with respect to any particular period, the aggregate of the moneys to be paid or set aside on such date or during such period for the payment (or retirement) of the principal of, premium, if any, and interest on Bonds and (2) with respect to Other Obligations, as of any particular date and with respect to any particular period, the aggregate of the moneys to be paid or set aside on such date or during such period for the payment of amounts payable by the Borrower under any Credit Enhancement Facility or Remarketing Agreements, including, inter alia, fees payable by the Borrower to a Credit Facility Provider thereunder.

"Debt Service Reserve Fund Requirement" means, for all Bonds issued which are not secured by the Moral Obligation Pledge, an amount specified in the Supplemental Indenture providing for the issuance thereof, provided that such amount will be an amount sufficient at the time of issuance of such Bonds to satisfy the Rating Agency Condition with respect to all Outstanding Bonds which are secured by the Moral Obligation Pledge.

"Debt Service Reserve Fund Surety" means, a letter of credit, municipal bond insurance policy, surety bond or other type of agreement or arrangement in favor of the Trustee, purchased in lieu of funding the Special Debt Service Reserve Fund or the Reserve Fund with cash.

"Department of Administration" means the Department of Administration of the State of Wisconsin.

"Department of Public Instruction" means the Department of Public Instruction of the State of Wisconsin.

"Depository" means any securities depository that is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its participants or otherwise, a Book Entry System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book Entry Form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

Determination of Taxability" means the occurrence of any of the following: the filing of a Borrower's Certificate with the Trustee asserting or indicating by its terms to the satisfaction of the Trustee that an Event of Taxability has occurred; notification to the Trustee that an authorized officer or official of the Internal Revenue Service has issued a statutory notice of deficiency or document of similar import to the effect that an Event of Taxability has occurred; or notification to the Trustee from any Bondowner or former Bondowner to the effect that the Internal Revenue Service has assessed as includable in the gross income of such Bondowner or former Bondowner interest on a Bond due to the occurrence of any Event of Taxability; provided, however, that in respect of clauses (b) and (c) above, a Determination of Taxability will not be deemed to have occurred unless and until the Borrower has been notified of the allegation that an Event of Taxability and a Determination of Taxability have occurred and the Borrower has failed within 60 days following such notice either (1) to have the allegation that an Event of Taxability has occurred rescinded by the Internal Revenue Service or the Bondowner or the former Bondowner who made such allegation, as the case may be, or (2) to obtain an unqualified opinion of Bond Counsel acceptable to the Trustee to the effect that no Event of Taxability has occurred.

"Effective Date" means February 1, 2007.

"Eligible Costs of the Program" means the following categorical costs of providing the Program:

1. the "Bond Issuance Costs," namely the costs, fees and expenses incurred or to be incurred by the Borrower in connection with the issuance and sale of the Bonds which are subject to the limitation described in Section 147(g)(1) of the Internal Revenue Code, including commitment, underwriting, remarketing or other financing fees, the fees and disbursements of Bond Counsel, the Trustee's acceptance fee, the filing and recording fees in connection with any filings or recording necessary under the Indenture or to perfect the lien thereof, any administrative fee of the Issuer, the fees and disbursements of counsel to the Issuer, the fees and disbursements of counsel to the Borrower, the fees and disbursements of the counsel to the underwriter, rating agency fees, the fees and disbursements of the Borrower's accountants, the costs of preparing or printing the Bonds and the documentation supporting the issuance of the Bonds, and any other costs of a similar nature reasonably incurred;

2. the "Planning Costs," namely the preliminary expenditures which include architectural, engineering, surveying, soil testing and similar costs that are incurred prior to commencement of acquisition, construction or rehabilitation of the Program, other than land acquisition, site preparation and similar costs incident to commencement of construction;

3. the "Basic Program Costs," namely those costs of carrying out the Program (other than the Bond Issuance Costs) that are capitalizable in nature, including without limitations the costs of acquiring, constructing or improving tangible property or leasehold interest therein incurred after October 16, 2000; and

4. the "Other Costs," namely such other costs incurred in connection with the Program or the financing thereof which, in the opinion of Bond Counsel, may be paid or reimbursed to the Borrower from the Program Fund without adverse effect on the legality of the Bonds or the exclusion of interest thereon from gross income for federal income purposes under Sections 103(a) of the Internal Revenue Code, including but not limited to any Credit Enhancement Facility premium and any Debt Service Reserve Fund Surety premium.

"Enabling Legislation" means Section 14g, 15m, 40k, 1630d, 2108s, 2143p and 9158 (7tw) of the Wisconsin 1999 Act 9.

"Event of Default" means any of the events designated as such in the Indenture and the Loan Agreement, as applicable.

"Event of Taxability" means the circumstance of interest paid or payable on any Bond becoming includable for federal income tax purposes (other than for purposes of computing alternative minimum taxes) in the gross income of any Bondowner as a consequence of any act, omission or event whatsoever.

"First Supplemental Indenture" means the First Supplemental Indenture, dated as of February 1, 2002, between the Issuer and the Trustee.

"First Supplemental Loan Agreement" means the First Supplemental Loan Agreement, dated as of November 1, 2003, between the Issuer and the Borrower.

"Fund" means any of the Trust Funds established by the Indenture.

"Government Obligations" means direct, full faith and credit obligations of the United States of America.

"Governor" means the Governor of the State of Wisconsin.

"Indenture" means the Indenture of Trust, dated as of February 1, 2002, between the Issuer and the Trustee, as trustee, as supplemented by the First Supplemental Indenture of Trust, the Second Supplemental Indenture of Trust and the Third Supplemental Indenture of Trust, and as thereafter amended and/or supplemented from time to time pursuant to its terms.

"Independent Counsel" means any attorney or firm of attorneys who or which will be acceptable to the Trustee and who or which is not an employee of the Borrower or the Issuer.

"Interest Payment Date" means (1) each regularly scheduled interest payment date with respect to the Bonds (which dates will be specified in the Supplemental Indenture providing for the issuance thereof) and (2) with respect to the payment of

interest upon redemption, acceleration or purchase of a Bond by the Trustee, such date on which such interest is payable under the Indenture.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Intradistrict Aid" means all aid the Borrower receives under Section 121.85 (6) (a), (am) and (ar) of the Wisconsin Statutes, as amended.

"Issuer" means the Redevelopment Authority of the City of Milwaukee, a public body corporate and politic created under the Act, and its successors.

"Letter of Representations" means the agreement between the Issuer and the Depository that sets forth the manner of making and processing payments, giving notices and other procedures relating to the Depository's Book Entry System. The initial Letter of Representations is the Blanket Issuer Letter of Representations dated May 9, 1995, from the Issuer to The Depository Trust Company.

"Loan" means any loan made pursuant to the Loan Agreement.

"Loan Agreement" means the Loan Agreement, dated as of February 1, 2002, between the Issuer and the Borrower, as supplemented by the First Supplemental Loan Agreement and the Second Supplemental Loan Agreement, and as amended and/or supplemented from time to time by Supplemental Loan Agreements in accordance with the Loan Agreement and the Indenture.

"Loans" means the Series 2002A Loan, the Series 2003A Loan, the Series 2007A Loan and all Additional Loans made pursuant to the Loan Agreement.

"Maturity" when used with respect to any Bond, means the date on which the principal of such Bond becomes due and payable as provided in the Bond or the Indenture, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

"Maximum Annual Debt Service" means, with respect to specified Bonds Outstanding, with respect to the Issuer's fiscal year, the maximum aggregate amount of the moneys to be paid or set aside during the Issuer's fiscal year for the payment (or retirement) of the interest on or principal of such Bonds plus mandatory sinking fund payments of such Bonds. Bonds deemed to have been paid in accordance with the defeasance provisions of the Indenture will not be included as Bonds Outstanding in the computation.

"Moral Obligation Pledge" means the State's moral obligation pledge described in subsection (5r) (j) of the Act.

"Other Beneficiary" means a person who holds or the beneficiary under any Outstanding Other Obligation.

"Other Obligations" means the Borrower's obligations to pay any amounts under any Credit Enhancement Facility and Remarketing Agreement.

"Outstanding," when used with reference to:

(a) Bonds, means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(i) Bonds or portions thereof canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds in lieu of which other Bonds have been authenticated and delivered in accordance with the Indenture;

(iii) Bonds which are not deemed to be Outstanding in accordance with the Indenture; and

(iv) Bonds in lieu of which other Bonds have been authenticated and delivered or which are not deemed to be Outstanding in accordance with a Supplemental Indenture.

(b) Any Other Obligation, means all Other Obligations which have become, or may in the future become, due and payable and which have not been paid or otherwise satisfied.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, incorporated organization or government or any agency or political subdivision thereof.

"Pledged Revenues" means all revenues and income derived by or for the account of the Issuer from or for the account of the Borrower pursuant to the terms of the Loan Agreement, any Promissory Note and the Indenture, including, without limitation (1) all amounts derived pursuant to any Credit Enhancement Facility, (2) all cash and securities held from time to time in the Trust Funds (other than the Rebate Fund), and the investment earnings thereon, (3) all payments received by the Issuer from the Moral Obligation Pledge; and (4) all payments by the Borrower on any Promissory Note or pursuant to the Loan Agreement; but excluding any amounts derived by the Issuer for its own account pursuant to the enforcement of Unassigned Rights.

"Preference Opinion" means an opinion of Bond Counsel addressed to the Trustee, stating in effect that the use of the funds to which the opinion relates for the purchase of Bonds or for the payment of the principal of, or premium or interest on, the Bonds, as the case may be, will not, upon the occurrence of a Bankruptcy Condition on or

after the date of such opinion, constitute a preference payment under the United States Bankruptcy Code (taking into account the "insider" provisions thereof) or a payment of similar import (that is, a payment subject to disgorgement upon the occurrence of certain bankruptcy events) under the then applicable federal and state bankruptcy, insolvency and reorganization laws.

"Program" means the program of the Borrower described in the Neighborhood Schools Plan Final Report Amended and Adopted by the Milwaukee Board of School Directors, dated August 24, 2000, as modified and approved by the Joint Committee on Finance of the Wisconsin Legislature on September 26, 2000, in accordance with the Enabling Legislation.

"Program Budget" means the budget described in the Loan Agreement and the First Supplemental Loan Agreement.

"Project" means each individual site on which a portion of the Program is to be constructed.

"Program Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Promissory Notes" means any Promissory Note of the Borrower issued to evidence any Loan.

"Qualified Investments" means, to the extent permitted under both Sections 66.0603 and 66.1333 (5)(a)(3) of the Wisconsin Statutes, as lawfully amended, any of the following permitted investments:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America; any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies set forth in clause (b) below to the extent unconditionally guaranteed by the United States of America;

(b) bonds, debentures, or other evidences of indebtedness issued or guaranteed by the following United States government-sponsored agencies: Federal Home Loan Mortgage Corporation, Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Association, Student Loan Marketing Association, Financing Corporation, Resolution Trust Corporation, Resolution Funding Corporation or any other government-sponsored agency which is not backed by the full faith and credit of the U.S. government which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;

(c) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds or other obligations for redemption on the date or dates specified in such instruction, (ii) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (c), as appropriate, and (iii) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (c) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (c), as appropriate;

(d) project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(e) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the General Resolution such obligations are rated in one of the two highest Rating Categories by each Rating Agency then rating such obligations;

(f) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which shall be rated at the time of their purchase under the General Resolution in one of the two highest Rating Categories by each Rating Agency then rating such obligations;

(g) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed as to payment pursuant to a credit support arrangement provided by one or more financial institutions or insurance companies or associations the uninsured, unsecured and unguaranteed obligations of which shall be rated in the two highest Rating Categories by each Rating Agency then rating such

certificates or obligations or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being so rated at the time of purchase under the General Resolution;

(h) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clauses (a) through (g), provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000;

(i) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any bank or trust company in the United States which are rated at the time of purchase in one of the two highest Rating Categories by each Rating Agency then rating such instruments;

(j) any repurchase agreements collateralized by securities described in clauses (a) through (f) above with any registered broker/dealer subject to Securities Investors' Protection Corporation jurisdiction, any primary broker/dealer or any commercial bank, if such broker/dealer or bank (or the parent or holding company of which) has an uninsured, unsecured and unguaranteed obligation rating (an unsecured rating) of "Prime-I" and "A" or better by Moody's and "A-I" or "A-3" or better by S&P and of "A-1" or "A-3" or better by Fitch, but only if Moody's, S&P and/or Fitch is a Rating Agency then rating such obligation, and provided (1) a specific written agreement governs the transaction; (2) the securities are held by a depository acting solely as agent for the District, and such depository is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than \$25,000,000, and the District or Trustee shall have received written confirmation from such third party that it holds such securities; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the District; (4) the repurchase agreement provides that the collateral securities will be valued no less frequently than weekly and will be liquidated if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; (5) the repurchase agreement matures at least ten days (or other appropriate liquidation period) prior to an interest payment date; and (6) the fair market value of the securities in relation to the amount of the repurchase obligations, including principal and interest, is equal to at least 102%;

(k) shares of an Investment Company, organized under the Investment Company Act of 1940, as amended, rated in one of the two highest Rating Categories by each Rating Agency then rating such Investment Company, which invests its assets exclusively in obligations of the type described in clauses (a) through (j);

(l) investment agreements which either (1) represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or

are guaranteed by a financial institution, in either case that has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof in one of the two highest Rating Categories by each Rating Agency then rating such institution or agreement, or (2) represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case such obligation being collateralized by securities described in clauses (a), (b) or (c) above in this definition of Qualified Investments and provided that such securities at all times have a market value (exclusive of accrued interest) at least equal to such investment agreement so secured;

(m) the local government-pooled investment fund under Section 25.50 of the Statutes; and

(n) any other investment permitted by State law that is rated at the time of purchase in one of the two highest Rating Categories by each Rating Agency then rating such investment.

"Rating Agency" means any rating agency that has an outstanding rating on any of the Bonds pursuant to request by the Issuer.

"Rating Agency Condition" means, with respect to any action, that each Rating Agency has notified the Issuer and the Trustee in writing that such action will not result in a reduction, qualification or withdrawal of the then current rating of any of the Bonds.

"Rebate Fund" means the special Fund created under the Indenture which is held for the sole benefit of the U.S. Treasury and is not a Pledged Revenue.

"Record Date" means with respect to an Interest Payment Date for any series of Bonds, unless the Supplemental Indenture authorizing the issuance of such series of Bonds otherwise provides, the fifteenth day (whether or not a Business Day) of the calendar month immediately preceding such Interest Payment Date.

"Redemption Date" when used with respect to any Bond to be redeemed, means the date fixed for such redemption by or pursuant to the Indenture.

"Redemption Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Remarketing Agent" with respect to any series of Bonds, means any securities dealer designated as such with respect to such Bonds, pursuant to the provisions of the Indenture and its successor or successors and any securities dealer at any time substituted in its place pursuant to the Indenture.

"Remarketing Agreement" means an agreement between a Remarketing Agent or Remarketing Agents and the Borrower setting forth the rights and obligations of the

Remarketing Agent or Remarketing Agents acting in such capacity under the Indenture and otherwise meeting the requirements of the Indenture, including any supplement thereto or amendment thereof entered into in accordance with the provisions thereof.

"Requisition" means a requisition of the Borrower substantially in the form attached to the Loan Agreement.

"Requisite Consent of Bondowners" means the affirmative written consent of Bondowners owning in aggregate not less than a majority in aggregate principal amount of the Bonds (other than Bonds owned by the Borrower or any "related person" as defined in Section 147(a) of the Internal Revenue Code) at the time Outstanding.

"Reserve Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Revenue Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture*-Trust Funds" herein.

"Second Supplemental Indenture" means the Second Supplemental Indenture of Trust, dated as of November 1, 2003, between the Issuer and the Trustee.

"Second Supplemental Loan Agreement" means the Second Supplemental Loan Agreement, dated as of February 1, 2007, between the Issuer and the Borrower.

"Secretary" means the Secretary of the Department of Administration of the State of Wisconsin.

"Series 2002A Bonds" means the Issuer's Revenue Bonds, Series 2002A (Milwaukee Public Schools-Neighborhood Schools Initiative) issued under the First Supplemental Indenture in the aggregate principal amount of the Series 2002A Bond Amount.

"Series 2002A Loan" means the loan from the Issuer to the Borrower, in the principal amount of the Series 2002A Loan Amount with funds made available to the Issuer from the sale of the Series 2002A Bonds.

"Series 2002A Loan Amount" means \$33,000,000 which is both the principal amount of the Series 2002A Bond issue and the amount of the Series 2002A Loan.

"Series 2003A Bonds" means the Issuer's Revenue Bonds, Series 2003A (Milwaukee Public Schools-Neighborhood Schools Initiative) issued under the Second Supplemental Indenture in the aggregate principal amount of the Series 2003A Bond Amount.

"Series 2003A Loan" means the loan from the Issuer to the Borrower, in the principal amount of the Series 2003A Loan Amount with funds made available to the Issuer from the sale of the Series 2003A Bonds.

"Series 2003A Loan Amount" means \$78,740,000, which is both the principal amount of the Series 2003A Bond issue and the amount of the Series 2003A Loan.

"Series 2007A Bonds" means the Bonds created and to be issued under the Third Supplemental Indenture in the original principal amount of \$31,865,000.

"Series 2007A Cost of Issuance Account" means the Account by that name established by the Third Supplemental Indenture.

"Series 2007A Cost of Issuance Deposit Amount" means \$330,448.91.

"Series 2007A Loan" means the loan from the Issuer to the Borrower, in the principal amount of the Series 2007A Loan Amount with funds made available to the Issuer from the sale of the Series 2007A Bonds.

"Series 2007A Loan Amount" means \$31,865,000, which is both the principal amount of the Series 2007A Bond issue and the amount of the Series 2007A Loan.

"Series 2007A Promissory Note" means the Borrower's promissory note, dated February 1, 2007, issued in the principal amount of the Series 2007A Loan Amount payable to the order of the Issuer as evidence of the Series 2007A Loan.

"Sinking Fund Payment Date" means the date on which any term Bond is to be called for mandatory redemption pursuant to the applicable sinking fund provisions of the Supplemental Indenture providing for the issuance of such Bond, or, if not redeemed, the Stated Maturity thereof.

"Special Debt Service Reserve Fund" means the Fund by that name established by the Indenture, which is described in "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Indenture-Trust Funds*" herein.

"Special Debt Service Reserve Fund Requirement" means, for all Bonds issued which are secured by the Moral Obligation Pledge, as of any particular date, the aggregate Maximum Annual Debt Service for all such Bonds.

"State" means the State of Wisconsin.

"Stated Maturity" when used with respect to any Bond or any installment of interest thereon, means the date specified in such Bond as the fixed date on which principal of such Bond or such installment of interest is due and payable.

Supplemental Indenture" means any supplement to or amendment of the Indenture entered into in accordance with the Indenture.

Supplemental Loan Agreement" means any supplement to or amendment of the Loan Agreement entered into in accordance with the Loan Agreement and the Indenture.

Third Supplemental Indenture" means the Third Supplemental Indenture of Trust, dated as of February 1, 2007, between the Issuer and the Trustee.

Trust Funds" means, in the aggregate, all of the Funds and Accounts administered by the Trustee under the Indenture.

Trustee" means The Bank of New York Trust Company, N.A. (or its predecessor), and any successor banking corporation, banking association or trust company at the time serving as corporate trustee under the Indenture.

Unassigned Rights" means the Borrower's obligations to the Issuer pertaining to provisions for the benefit of the Issuer, insurance on the Program and the limited liability of the Issuer.

Variable Rate Bonds" means Bonds whose interest rate is not fixed but varies on a periodic basis as specified in the Supplemental Indenture providing for the issuance thereof.

## **SUMMARY OF PRINCIPAL BOND DOCUMENTS**

### **THE INDENTURE**

*he following, in addition to the information contained elsewhere in this Official Statement, summarizes certain provisions of the Indenture executed by the Issuer and delivered to the Trustee, to which reference is made for a full and complete statement of the provisions thereof.*

#### **ASSIGNMENTS AND PLEDGE (GRANTING CLAUSES)**

In order to secure the payment of the principal or purchase price of, premium, if any, and interest on the Bonds issued and Outstanding under the Indenture according to their tenor and effect, and to secure the performance and observance by the Issuer of all of the covenants and obligations expressed or implied in the Indenture and in the Bonds, the Issuer has in the Indenture irrevocably pledged, assigned and granted a security interest in and confirmed unto the Trustee, and the successors in trust and assigns of the Trustee, forever to the extent provided in the Indenture (the "Trust Estate"):

- (a) All right, title and interest of the Issuer in and to the Promissory Notes;

(b) All right, title and interest of the Issuer in, to and under the Loan Agreement and the right to receive revenues and payments from the Borrower thereunder;

(c) All right, title and interest of the Issuer in and to the Pledged Revenues;

(d) All right, title and interest (if any) of the Issuer in and to any Credit Enhancement Facility;

(e) All right, title and interest of the Issuer in and to the Trust Funds (other than the Rebate Fund) and the cash, securities and investments of which they are comprised; and

(f) All property which by the express provisions of the Indenture is required to be subjected to the lien thereof, and any additional property that may from time to time thereafter be made subject to the lien thereof by the Issuer or by anyone on its behalf;

The Trust Estate is for the equal and ratable benefit and security of the Bondowners without preference, priority or distinction as to lien or otherwise of any particular Bond over any other Bond except as otherwise expressly authorized or provided in the Indenture.

#### ADDITIONAL BONDS

The Issuer may issue Additional Bonds, upon compliance with certain conditions. These conditions include the following:

(a) The Trustee must certify that there is no deficiency in the Rebate Fund or the Bond Fund and that, after the issuance of the series of Bonds then to be issued and the application of the proceeds thereof, there will not be a deficiency in the Special Debt Service Reserve Fund or the Reserve Fund.

(b) An Authorized Official of the Borrower must certify in a Borrower's Certificate filed with the Trustee that the Borrower is not in default in the performance of any of its covenants and agreements in the Loan Agreement (unless, in the opinion of Bond Counsel, any such default does not deprive any Beneficiary in any material respect of the security afforded by the Indenture).

(c) Each Supplemental Indenture providing for the issuance of any series of Bonds must state whether or not such series of Bonds is secured by a Moral Obligation Pledge. If such series of Bonds will be secured by a Moral Obligation Pledge, then the Issuer must receive a certificate from the Secretary of the Department of Administration confirming that the Moral Obligation Pledge applies to such series of Bonds.

(d) If the aggregate principal amount of Bonds Outstanding will exceed \$105,000,000 after the issuance of the series of Bonds then to be issued, consent of the Credit Facility Provider must be obtained before the issuance of such series of Bonds.

#### PARITY

Except as expressly authorized or provided in the Indenture, (1) the Indenture is for the equal and ratable benefit and security of all Bonds issued and to be issued thereunder; (2) all Bonds will be of equal rank; and (3) no Bondowner will be accorded a preference or priority over any other Bondowner. All Bonds that are secured by the Moral Obligation Pledge will be equally and ratably secured by the Special Debt Service Reserve Fund and will not be secured by the Reserve Fund. Furthermore, all Bonds that are not secured by the Moral Obligation Pledge will not be secured by the Special Debt Service Reserve Fund and may or may not be secured by the Reserve Fund.

#### SOURCE OF PAYMENT AND SECURITY FOR BONDS

The principal of, premium, if any, and interest on the Bonds will be payable by the Issuer solely from the Pledged Revenues. The Pledged Revenues are specifically, irrevocably and exclusively pledged to the punctual payment of the principal of, premium, if any, and interest on the Bonds (except as expressly limited by the paragraph immediately above), and will be used for no other purpose except as otherwise expressly authorized in the Indenture.

The Bonds will not constitute a debt or obligation of the Issuer, the City, the State or any political subdivision thereof within the meaning of any State constitutional provision or statutory limitation and will not be a charge against their general credit or taxing powers. It is understood that the Issuer has no taxing powers.

#### NONPRESENTMENT OF BONDS

In the event any Bond is not presented for payment when the principal thereof becomes due, either at Stated Maturity or on the date fixed for redemption thereof, if cash sufficient to pay such bond is held by the Trustee for the benefit of the Owner thereof, all liability of the Issuer to the Owner thereof for the payment of such bond will cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such cash in a segregated trust account without liability for interest thereon, for the benefit of the Owner of such bond who will thereafter be restricted exclusively to such account for any claim of whatever nature on such Person's part under the Indenture or on or with respect to said Bond. Such cash in such segregated trust account will thereafter no longer be considered Pledged Revenues any such Bond will no longer be deemed Outstanding under the Indenture. If any such Bond has not been presented within 60 days of the date the principal became due, the Trustee will promptly notify the Person identified as the Owner of such bond in the Bond Register (as of the date the principal of such Bond became due) by first class mail that such Bond has become due and that the amount due is being held by the Trustee thereunder.

After any such cash has been held in such segregated trust account for four years, the Trustee will certify the amount thereof and the identifying numbers of the particular Bonds whose Owners have a claim there against (which Owners will also be identified, if known) and deliver such certificate and such cash to the Borrower. Thereafter such Owners will have an unsecured claim against the Borrower in respect of payment of such unrepresented Bonds, and will have no further claim whatever against the Issuer or the Trustee.

#### CREDIT ENHANCEMENT FACILITY

The Issuer and the Trustee may from time to time, pursuant to a Supplemental Indenture, obtain the benefit of any Credit Enhancement Facility with respect to any Bonds of any series, provided that (1) the Rating Agency Condition is satisfied with respect to any such Credit Enhancement Facility, and (2) any such Credit Enhancement Facility satisfies any conditions specified in a prior Supplemental Indenture.

Notwithstanding anything in the Indenture to the contrary, (1) any Supplemental Indenture authorizing a Credit Enhancement Facility may include provisions with respect to the application and use of all amounts to be paid thereunder, (2) no amounts paid under any such Credit Enhancement Facility will be part of the Trust Estate except to the extent, if any, specifically provided in such Supplemental Indenture and no Beneficiaries will have any rights with respect to any such amounts so paid except as may be specifically provided in such Supplemental Indenture, and (3) Bonds of one or more series or any portions thereof may be secured by a pledge of any or all amounts payable pursuant to such Credit Enhancement Facility, in the manner and to the extent provided in such Supplemental Indenture.

#### TRUST FUNDS

The following described trust funds (collectively the "Trust Funds") are created under the Indenture to be held in the custody of the Trustee for the uses and purposes provided in the Indenture and summarized below: Cost of Issuance Fund; Program Fund; Revenue Fund; Bond Fund; Redemption Fund; Special Debt Service Reserve Fund; Reserve Fund; and Administrative Fund.

Cost of Issuance Fund. With respect to any series of Bonds, the Trustee will credit to the Cost of Issuance Fund the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Bonds. Such Supplemental Indenture will create a separate Account within the Cost of Issuance Fund with respect to each series of Bonds.

Moneys in the Cost of Issuance Fund will be applied only to pay (or reimburse the Borrower for) the Bond Issuance Costs (as defined in the definition of "Eligible Costs of the Program"). Any moneys remaining in the Series 2007A Cost of Issuance Account on the earliest of (1) the date which is 90 days after the date of issuance of the Series 2007A

Bonds, or (2) the Trustee's receipt of a certification by the Borrower's Representative that all Bond Issuance Costs have been paid, shall be transferred by the Trustee to the Bond Fund.

Program Fund. With respect to any series of Bonds, the Trustee will credit to the Program Fund the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Bonds. Such Supplemental Indenture will create a separate Account within the Program Fund with respect to each series of Bonds.

Upon closing the Program Fund in accordance with the Loan Agreement, that portion of any remaining balance in the Program Fund constituting the largest Authorized Denomination available therein will be transferred to the Redemption Fund, and any remainder to the Bond Fund.

Revenue Fund. The Trustee will deposit all Intradistrict Aid when and as received into the Revenue Fund. The Trustee will transfer and apply the moneys in the Revenue Fund in the following order of priority:

First, for deposit into the Bond Fund — an amount which, when added to the amount then on deposit therein, is equal to all principal and interest scheduled to become due on the Bonds during the one-year period following such transfer.

Second, for payment ratably to the issuers of any Debt Service Reserve Fund Sureties — the amounts necessary to reimburse them (with interest to the extent provided for) for draws on the Debt Service Reserve Fund Sureties.

Third, for deposit into the Reserve Fund — an amount equal to the amount of any deficiency therein at the time of such transfer.

Fourth, for deposit into the Special Debt Service Reserve Fund — an amount equal to the amount of any deficiency therein at the time of such transfer.

Fifth, for payment to the State — the amount necessary to reimburse the State (with interest to the extent provided for) for any payments made by it pursuant to its Moral Obligation Pledge.

Sixth, for deposit into the Administrative Fund — the amount certified in a Borrower's Certificate filed with the Trustee as necessary to pay Administrative Expenses during the one-year period following the date of such transfer.

Seventh, for deposit to the Redemption Fund — the amount certified in a Borrower's Certificate filed with the Trustee as necessary to make any optional redemption payments of Bonds during the one-year period following the date of such transfer.

Eighth, for payment to the Borrower — an amount equal to the entire remaining balance in the Revenue Fund.

Bond Fund. With respect to any series of Bonds, the Trustee will credit to the Bond Fund, the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Bonds. The Trustee will also deposit in the Bond Fund:

(a) The accrued interest, if any, described in the Supplemental Indenture providing for the issuance of such series of Bonds;

(b) All payments received under any Credit Enhancement Facility and required to be deposited into the Bond Fund pursuant to the terms of the Supplemental Indenture providing for the issuance of such series of Bonds;

(c) All payments from or for the account of the Borrower on the Promissory Notes (except prepayments of principal and premium, if any, thereon required to be deposited into the Redemption Fund) or pursuant to the Loan Agreement;

(d) Moneys required to be transferred to the Bond Fund from other Trust Funds or from Pledged Revenues in accordance with the Indenture; and

(e) Moneys required to be deposited into the Bond Fund pursuant to the terms of a Supplemental Indenture.

All moneys in the Bond Fund will be used solely for the payment of (1) interest on the Bonds and principal of the Bonds when due (whether at maturity, by acceleration or call for redemption or otherwise) and (2) the reimbursement to all Credit Facility Providers for payment of interest on the Bonds and principal on the Bonds pursuant to Credit Enhancement Facilities. The Issuer authorizes and directs the Trustee to withdraw sufficient moneys from the Bond Fund to pay the Bonds and the interest thereon as the same become due and payable and to reimburse all Credit Facility Providers for payments made pursuant to Credit Enhancement Facilities.

Any Supplemental Indenture providing for the issuance of any series of Bonds, the payment of which is to be provided pursuant to or secured by a Credit Enhancement Facility, will also provide for the creation of separate Accounts within the Bond Fund. Any payment received pursuant to such Credit Enhancement Facility will be deposited into such Accounts, and moneys deposited therein will be used only for the payment of Debt Service on Bonds of such series, or for such other purposes as may be permitted by such Supplemental Indenture, upon the conditions set forth in such Supplemental Indenture.

The Issuer covenants in the Indenture that it will deposit or cause to be deposited into the Bond Fund, but solely from Pledged Revenues amounts sufficient to pay when due the principal of and interest on the Bonds.

Redemption Fund. With respect to any series of Bonds, the Trustee will credit to the Redemption Fund, the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Bonds. The Trustee will also deposit in the Redemption Fund:

(a) All prepayments of principal by the Borrower on the Loan or any Additional Loan pursuant to the Loan Agreement, together with the premium, if any, thereon;

(b) Moneys required to be transferred to the Redemption Fund from other Trust Funds in accordance with the Indenture; and

(c) Moneys required to be deposited into the Redemption Fund pursuant to the terms of a Supplemental Indenture.

The Issuer authorizes and directs the Trustee to (1) transfer funds from the Redemption Fund to the Bond Fund when and as required to pay, or reimburse a Credit Facility Provider for the payment of, the principal of any Bonds called for redemption in accordance with the Indenture (other than by payment of principal of any term bonds on a Sinking Fund Payment Date); (2) withdraw funds from the Redemption Fund to pay, or reimburse a Credit Facility Provider for the payment of, any premiums payable on Bonds called for redemption in accordance with the Indenture; and (3) transfer funds from the Redemption Fund to the Bond Fund to pay, or reimburse a Credit Facility Provider for the payment of, the final payment of principal on the Bonds at the last maturity thereof. Except to the extent moneys in the Redemption Fund are needed for the purposes described in the foregoing clauses (1) and (2), the Trustee is authorized to use moneys in the Redemption Fund for the purchase of Bonds for cancellation; provided that such purchases will be made only to the extent authorized by the Borrower in a Borrower's Certificate; and provided further that the purchase price for any Bond so purchased will not exceed the principal amount thereof plus any accrued and unpaid interest thereon. Such terms may be modified by a Supplemental Indenture providing for the issuance of such series of Bonds.

Special Debt Service Reserve Fund. With respect to each series of Bonds secured by the Moral Obligation Pledge, the Trustee will upon delivery to the initial purchasers thereof and from the proceeds thereof, or from other sources received for deposit into the Special Debt Service Reserve Fund in the form of cash or a Debt Service Reserve Fund Surety or a combination thereof which in the aggregate satisfy the Special Debt Service Reserve Fund Requirement, credit the Special Debt Service Reserve Fund the amount required to satisfy the Special Debt Service Reserve Fund Requirement. The Trustee will also transfer for deposit into the Special Debt Service Reserve Fund, when and as received any additional moneys which the Issuer or the Borrower may deliver to the Trustee from time to time with the instruction that such moneys be deposited into the Special Debt Service Reserve Fund. The Special Debt Service Reserve Fund will apply only to those series of Bonds which are secured by the Moral Obligation Pledge. All

references to Bonds in this section relating to the Special Debt Service Reserve Fund means Bonds which are secured by the Moral Obligation Pledge.

If on any day on which the principal of, premium, if any, or interest on the Bonds becomes due, whether on an Interest Payment Date, at Maturity, upon redemption or acceleration or otherwise, the moneys in the Bond Fund are insufficient for making such payment, the Trustee will transfer amounts on deposit in the Special Debt Service Reserve Fund to the Bond Fund to be used to make such payments. Notwithstanding the foregoing, if the Trustee is holding a Debt Service Reserve Fund Surety, the Trustee will make a demand on such Debt Service Reserve Fund Surety in sufficient time to make such transfer to the Bond Fund for payment of principal or interest as it becomes due. If the Special Debt Service Reserve Fund is funded with cash and Qualified Investments and a Debt Service Reserve Fund Surety or multiple Debt Service Reserve Fund Sureties, the Trustee shall draw on the cash and Qualified Investments before any Debt Service Reserve Fund Surety, and if there are multiple Debt Service Reserve Fund Sureties, the Trustee shall draw ratably on each Debt Service Reserve Fund Surety.

All moneys in the Special Debt Service Reserve Fund and all proceeds from the Debt Service Reserve Fund Surety will be used solely for (1) the payment of principal and interest of the Bonds, (2) the payment of sinking fund payments with respect to the Bonds, (3) the purchase or redemption of the Bonds (excluding proceeds from the Debt Service Reserve Fund Surety) or (4) the payment of any premium required to be paid on the Bonds if the Bonds are redeemed prior to maturity. If money in the Special Debt Service Reserve Fund, or the redemption value of the Debt Service Reserve Fund Surety, is less than the Special Debt Service Reserve Fund Requirement, the moneys in the Special Debt Service Reserve Fund or the Debt Service Reserve Fund Surety cannot be used for any optional purchase or optional redemption of the Bonds.

If on a day on which the principal of or interest on the Bonds becomes due the moneys (excluding any Debt Service Reserve Fund Surety) in the Bond Fund and the Special Debt Service Reserve Fund equal or exceed the amount of all payments remaining of principal of and interest on the Bonds (assuming that Variable Rate Bonds bear interest at the maximum rate applicable thereto to the Final Maturity Date, or an earlier Redemption Date for which the Trustee has given notice of redemption or has been given irrevocable instructions to give such notice), the Trustee will transfer the monies in the Special Debt Service Reserve Fund to the Bond Fund to be used to make such payments.

The Trustee will compare the Special Debt Service Reserve Fund Requirement and the aggregate balance in the Special Debt Service Reserve Fund on the second Business Day of each month and on the date of any transfer of monies from the Revenue Fund. If on any such date (after any transfer from the Revenue Fund) the aggregate balance in the Special Debt Service Reserve Fund is below the Special Debt Service Reserve Fund Requirement, the Trustee will, within two Business Days, notify the Issuer and the Borrower in writing of such deficiency and, upon receipt thereof, the Issuer will forthwith certify to the Secretary, the Governor and the Joint Committee on Finance of

the State of Wisconsin the amount necessary to restore the Special Debt Service Reserve Fund to the Special Debt Service Reserve Fund Requirement.

For the purpose of determining the balance in the Special Debt Service Reserve Fund, investments held therein will be valued at par, or, if purchased at less than par, at the cost thereof to the Issuer. A Debt Service Reserve Fund Surety will be valued at its stated redemption value.

Notwithstanding any other provision of the Indenture, if transferring any income or interest earned by, or increment to, the Special Debt Service Reserve Fund reduces the balance in the Special Debt Service Reserve Fund below the Special Debt Service Reserve Fund Requirement, any income and interest from investment of the Special Debt Service Reserve Fund will be retained in the Special Debt Service Reserve Fund.

Reserve Fund. With respect to each series of Bonds not secured by the Moral Obligation Pledge, the Trustee will upon delivery to the initial purchasers thereof, and from the proceeds thereof or from other sources received for deposit into the Reserve Fund in the form of cash or a Debt Service Reserve Fund Surety or a combination thereof which in the aggregate satisfy the Debt Service Reserve Fund Requirement, credit the Reserve Fund the amount required to satisfy the Debt Service Reserve Fund Requirement. The Supplemental Indenture providing for the issuance of such series of Bonds shall create a separate Account within the Reserve Fund with respect to each series of Bonds. The Trustee will also transfer for deposit into the Reserve Fund, when and as received any additional moneys which the Issuer or the Borrower may deliver to the Trustee from time to time with the instruction that such moneys be deposited into the Reserve Fund. All references to Bonds in this section relating to the Reserve Fund means Bonds which are not secured by the Moral Obligation Pledge.

If on any day on which the principal of, premium, if any, or interest on the Bonds becomes due, whether on an Interest Payment Date, at Maturity, upon redemption or acceleration or otherwise, the moneys in the Bond Fund are insufficient for making such transfer to the Bond Fund for payment, the Trustee will transfer amounts on deposit in the Account of the Reserve Fund which relates to such series of Bonds to the Bond Fund to be used to make such payments. Notwithstanding the foregoing, if the Trustee is holding a Debt Service Reserve Fund Surety, the Trustee will make a demand on such Debt Service Reserve Fund Surety in sufficient time to make such transfer to the Bond Fund for payment of principal or interest as it becomes due.

All moneys in the Reserve Fund and all proceeds from the Debt Service Reserve Fund Surety will be used solely for (1) the payment of principal and interest of the Bonds, (2) the payment of sinking fund payments with respect to the Bonds, (3) the purchase or redemption of the Bonds or (4) the payment of any premium required to be paid on the Bonds if the Bonds are redeemed prior to maturity. If money in the Reserve Fund, or the redemption value of the Debt Service Reserve Fund Surety, is less than the Debt Service Reserve Fund Requirement, the moneys in the Reserve Fund or the Debt

Service Reserve Fund Surety cannot be used for any optional purchase or optional redemption of the Bonds.

If on a day on which the principal of or interest on the Bonds becomes due the moneys (excluding any Debt Service Reserve Fund Surety) in the Bond Fund and the Reserve Fund equal or exceed the amount of all payments remaining of principal of and interest on the Bonds (assuming that Variable Rate Bonds bear interest at the maximum rate applicable thereto to the Final Maturity Date, or an earlier Redemption Date for which the Trustee has given notice of redemption or has been given irrevocable instructions to give such notice), the Trustee will transfer the monies in the Reserve Fund to the Bond Fund to be used to make such payments.

The Trustee will compare the Debt Service Reserve Fund Requirement and the balance in each Account within the Reserve Fund on the second Business Day of each month and on the date of any transfer of monies from the Revenue Fund. If on any such date (after any transfer from the Revenue Fund) the balance in any Account within the Reserve Fund is below the Debt Service Reserve Fund Requirement for the series of Bonds relating to such Account, the Trustee will, give notice to the Borrower, the Issuer and the City.

For the purpose of determining the balance in the Reserve Fund, investments held therein will be valued at par, or, if purchased at less than par, at the cost thereof to the Issuer. A Debt Service Reserve Fund Surety will be valued at its stated redemption value.

Notwithstanding any other provision of the Indenture, if transferring any income or interest earned by, or increment to, the Reserve Fund reduces the balance in the Reserve Fund below the Debt Service Reserve Fund Requirement, any income and interest from investment of the Reserve Fund will be retained in the Reserve Fund.

Administrative Fund. The Trustee will deposit in the Administrative Fund: (1) any moneys which the Borrower delivers to the Trustee from time to time with the instruction that such moneys be deposited into the Administrative Fund and (2) moneys required to be deposited into the Administrative Fund under the terms of the Indenture or any Supplemental Indenture.

The Trustee will disburse moneys from the Administrative Fund to pay Administrative Expenses. The Trustee will make payments from the Administrative Fund upon receipt of a Borrower's Certificate directing the Trustee to pay the Administrative Expenses in accordance with accompanying invoices, or other supporting documentation.

#### TRUST FUNDS HELD IN TRUST

All Trust Funds will be held in trust in the custody of the Trustee, subject to the provisions of the Indenture that permit disbursements from the Trust Funds. All moneys

and securities held in Trust Funds will be subject to the first lien of the Indenture thereon and will not be subject to lien, attachment, garnishment or other claims or proceedings by other creditors of the Borrower or the Issuer.

#### PAYMENT OF PRINCIPAL AND INTEREST

The Issuer covenants under the Indenture that it will promptly pay the principal of, premium, if any, and interest on each Bond issued under the Indenture at the place, on the date and in the manner provided in said Bond according to the true intent and meaning thereof. The principal of, premium, if any, and interest on the Bonds are payable solely from the Pledged Revenues, and nothing in the Bonds or the Indenture will be considered as pledging any other funds or assets of the Issuer.

#### PERFORMANCE OF COVENANTS; AUTHORITY

The Issuer covenants under the Indenture that it will faithfully perform each and every undertaking, covenant, stipulation and provision contained in the Indenture and in each and every Bond executed, authenticated and delivered thereunder. The Issuer represents that it is duly authorized under the Constitution and laws of the State to issue the Bonds, to execute the Indenture and the Loan Agreement and to pledge the revenues described and pledged therein.

#### TAX-EXEMPT STATUS OF BONDS

The Issuer covenants under the Indenture that it will take no action which would cause an Event of Taxability, with respect to any tax-exempt Bonds issued under the Indenture.

#### AMENDMENT OF REMARKETING AGREEMENTS

The Issuer will notify the Trustee and any related Credit Facility Provider in writing of any proposed amendments to any Remarketing Agreement. No such amendment will become effective unless and until (1) the Trustee consents in writing thereto, which consent will not be given unless the Trustee receives an opinion of Counsel that such amendment is required by a Credit Enhancement Facility or the Indenture or is not to the material prejudice of the Owners of the Bonds, and (2) any related Credit Facility Provider consents in writing thereto, which consent will not be unreasonably withheld, provided that no consent of any related Credit Facility Provider will be required if any related Credit Facility Provider receives an opinion of Counsel that such amendment is required by the Indenture.

#### CREDIT ENHANCEMENT FACILITIES AND REMARKETING AGREEMENTS

The Issuer may give the Borrower consent from time to time to enable the Borrower to enter into or obtain the benefit of a Credit Enhancement Facility or a Remarketing Agreement with respect to any series of Bonds; provided that (1) a

Supplemental Indenture is entered into in accordance with the Indenture, and (2) any such Credit Enhancement Facility or Remarketing Agreement satisfies any conditions specified in a prior Supplemental Indenture.

Notwithstanding anything in the Indenture to the contrary, any Supplemental Indenture authorizing the execution by the Borrower of a Credit Enhancement Facility or Remarketing Agreement may include provisions with respect to the application and use of all amounts to be paid thereunder, no amounts paid under any such Credit Enhancement Facility or Remarketing Agreement will be part of the Trust Estate except to the extent, if any, specifically provided in such Supplemental Indenture and no Beneficiaries will have any rights with respect to any such amounts so paid except as may be specifically provided in such Supplemental Indenture; Bonds of one or more series or any portions thereof may be secured by a pledge of any or all amounts payable pursuant to such Credit Enhancement Facility or Remarketing Agreement, in the manner and to the extent provided in such Supplemental Indenture.

#### EVENTS OF DEFAULT

Any of the following events constitutes an Event of Default under the Indenture:

(a) Default in the due and punctual payment of the principal or purchase price of, premium, if any, or interest on any Bond whether at the Stated Maturity thereof, at the date fixed for prepayment thereof (including, but not limited to, Sinking Fund Payment Dates) or otherwise upon the maturity thereof; or

(b) The acceleration of the maturity of any Promissory Notes pursuant to the terms of the Loan Agreement; or

(c) Default in the performance or observance of any of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds contained and the continuance thereof for a period of 60 days after written notice given to the Issuer by the Trustee or to the Trustee and the Issuer by the Acting Beneficiaries Upon Default.

#### ACCELERATION

(a) Upon the occurrence of an Event of Default set forth in paragraph (c) above, the Trustee may, with the written consent of any related Credit Facility Provider, and will upon the written request of the Acting Beneficiaries Upon Default, by notice in writing delivered to the Issuer and the Borrower, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable.

(b) Upon the occurrence of an Event of Default set forth in paragraph (b) above, or upon the continuance for two Business Days of the Event of Default set forth in paragraph (a) above relating to Events of Default, the Trustee will, by notice in writing delivered to the Issuer, the Other Beneficiaries and the Borrower, declare the principal of

all Bonds then Outstanding and the accrued interest thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable.

(c) Upon the occurrence of an Event of Default set forth in paragraph (a) above relating to Events of Default, and without regard to the continuance thereof, the Trustee may, and upon the written request of the Acting Beneficiaries Upon Default will, by notice in writing delivered to the Issuer, the Other Beneficiaries and the Borrower, declare the principal of all Bonds then outstanding and the accrued interest thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable.

(d) Upon the acceleration of the maturities of Variable Rate Bonds, the Trustee will forthwith demand payment from any related Credit Facility Provider for the payment under the related Credit Enhancement Facility pursuant to the terms thereof in an amount sufficient to pay the principal of and interest on such Variable Rate Bonds (other than Pledged Bonds, as defined in the Supplemental Indenture providing for the issuance of such series of Variable Rate Bonds) to the expected payment date.

#### REMEDIES

Upon the occurrence of an Event of Default, the Trustee (with the written consent of any related Credit Facility Provider in the case of Variable Rate Bonds) may, in addition to acceleration as described above, pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds or on any Promissory Note.

The Trustee, as beneficiary of any Credit Enhancement Facility, will enforce such of its rights thereunder as it deems necessary or appropriate. The Trustee, as an assignee of rights and interests of the Issuer in and to the Loan Agreement and the Promissory Notes, with the consent of the Other Beneficiaries in the case of rights under the Variable Rate Bonds, will enforce such of its rights and the rights of the Issuer thereunder as it deems necessary or appropriate. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee will take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondowners.

If an Event of Default has occurred, and if requested so to do by the Acting Beneficiaries Upon Default and if indemnified as provided in the Indenture, the Trustee will be obliged to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by Counsel, deems most expedient in the interest of the Bondowners, subject to the rights of the Other Beneficiaries.

Notwithstanding any other provisions of the Indenture relating to defaults and remedies, if an "Event of Default" (as defined therein) occurs under any Credit Enhancement Facility or any Remarketing Agreement, and, as a result, the Other

Beneficiary that is a party thereto is entitled to exercise one or more remedies thereunder, such Other Beneficiary may exercise such remedies, including, without limitation, the termination of such agreement, as provided therein, in its own discretion; provided that the exercise of any such remedy will not adversely affect the legal ability of the Trustee or Acting Beneficiaries Upon Default to exercise any remedy available thereunder.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Beneficiaries) is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to any other remedy given to the Trustee or to the Beneficiaries thereunder or now or thereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Indenture, whether by the Trustee pursuant to the provisions of the Indenture or by the Bondowners, will extend to or will affect any subsequent default or event of default or will impair any rights or remedies consequent thereon.

#### RIGHT OF ACTING BENEFICIARIES UPON DEFAULT TO DIRECT PROCEEDINGS

Anything in the Indenture to the contrary notwithstanding, the Acting Beneficiaries Upon Default will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that (1) such direction will not be otherwise than in accordance with the provisions of law and of the Indenture; (2) the Trustee will not determine that the action so directed would be unjustly prejudicial to the Owners of Bonds or Other Beneficiaries not taking part in such direction; and (3) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such directions.

#### WAIVER OF CERTAIN RIGHTS

Upon the occurrence of an Event of Default, to the extent that such rights may then lawfully be waived, neither the Issuer nor anyone claiming through it or under it, will set up, claim or seek to take advantage of any moratorium, stay, extension or redemption laws now or hereafter in force to prevent or hinder the enforcement of the Indenture, but the Issuer for itself and all who may claim through or under it thereby waives, to the extent that it lawfully may do so, the benefit of all such laws to which it may be entitled by law.

## APPLICATION OF MONEYS

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture relating to defaults and remedies will, after, except as otherwise provided in a Supplemental Indenture, payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (provided that no such costs or expenses may be taken or paid from any Credit Enhancement Facility proceeds), be deposited into the Bond Fund and all moneys held or deposited in the Bond Fund during the continuance of an Event of Default will be applied as follows, (except that moneys received with respect to Credit Enhancement Facilities will be applied only to the purposes for which such Credit Enhancement Facilities were provided, and will be so applied prior to the application of other moneys as provided in this discussion.)

(a) Unless the principal of all the Bonds Outstanding has become or will have been declared due and payable, all such moneys will be applied:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest including interest (to the extent permitted by law) on overdue installments of interest at the same rate(s) per annum as borne by such Bonds on the date such interest became due, and, if the amount available will not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest (to the extent permitted by law) on such Bonds from the respective dates upon which they became due at the same rate(s) per annum as borne by such Bonds on the date such principal became due and, if the amount available will not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal, with interest (to the extent permitted by law) on such principal from the respective dates on which such principal became due, due on such date, to the Persons entitled thereto without any discrimination or privilege.

Third: To the payment to the Persons entitled thereto of the unpaid premium, if any, on any of the Bonds which have been called for redemption, in the order of the Redemption Dates, with interest (to the extent permitted by law) on such premiums from the respective dates on which such premiums became due, and, if the amount available will not be sufficient to pay in full the premiums due on any particular Redemption Date, together with such interest, then to the payment ratably, according to the premium due on such date, to the Persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds have become due or have been declared due and payable, all such moneys will be applied first to the payment of the principal and interest then due and unpaid upon all of the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest, or of any Bond over any other Bond (regardless of series), ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege, and secondly to the payment of the premium, if any, then due, ratably to the Persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Indenture relating to defaults and remedies, then, subject to the provisions of paragraph (b) above in the event that the principal of all the Bonds will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of paragraph (a) above.

Whenever moneys are to be applied by the Trustee as described above, such moneys will be applied at such times from time to time as the Trustee determines, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee applies such funds, it will fix the date (which will be a regularly scheduled Interest Payment Date unless it deems another date more suitable or unless any related Credit Enhancement Facility requires an earlier payment date) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of such moneys and of the fixing of such date and will not be required to make payment to the Owner of any unpaid Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all of the Bonds and interest thereon have been paid under the provisions described above and all fees, charges and expenses of the Trustee and any paying agents and all other amounts required to be paid hereunder have been paid, any balance remaining in the Bond Fund will be paid to any related Credit Facility Provider to the extent of any amounts due it pursuant to any agreement pertaining to any related Credit Enhancement Facility, and thereafter to the Borrower.

#### REMEDIES VESTED IN TRUSTEE

All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee will be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Beneficiary of the Bonds, and any recovery of judgment will, subject to the provisions of the Indenture relating to application of moneys, be for the equal and ratable benefit of all Beneficiaries in respect of which such judgment has been recovered.

## RIGHTS AND REMEDIES OF BENEFICIARIES

Except as may be permitted in a Supplemental Indenture with respect to any Other Beneficiary, no Owner of any Bond or Other Beneficiary will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy unless (1) a default has occurred of which the Trustee has been notified or is deemed notified under the Indenture, (2) such default has become an Event of Default and the Owners of at least 25% in aggregate principal amount of Bonds then Outstanding or any Other Beneficiary has made written request to the Trustee and has offered it reasonable opportunity either to proceed to exercise the powers before granted under the Indenture or to institute such action, suit or proceeding in its own name, (3) such Beneficiary or Beneficiaries has offered to the Trustee indemnity under the Indenture and (4) the Trustee has thereafter failed or refused to exercise the powers before granted under the Indenture, or to institute such action, suit or proceeding in its own name.

## WAIVERS OF EVENTS OF DEFAULT

The Trustee will waive any Event of Default under the Indenture and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds upon the written request of the Owners of a majority in aggregate principal amount of all of the Bonds then outstanding; provided, however, that there will not be waived without the consent of the Owners of all the Bonds Outstanding and the Other Beneficiaries (1) any Event of Default in the payment of the principal or purchase price of any Outstanding Bonds at the date of maturity specified therein or at the date fixed for the redemption or purchase thereof, or (2) any Event of Default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) on overdue installments of interest at the same rate(s) per annum as borne by such Bonds, or all arrears of payments of principal, with interest (to the extent permitted by law) on overdue principal at the same rate(s) per annum as borne by such Bonds, as the case may be, and all expenses of the Trustee in connection with such default have been paid or provided for; and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee, the Bondowners and the Other Beneficiaries will be restored to their former positions and rights hereunder respectively, but no such waiver or rescission will extend to any subsequent or other default, or impair any right consequent thereon.

## OPPORTUNITY TO CURE DEFAULTS BY ISSUER

With regard to any alleged default by the Issuer under the Indenture, the Issuer names and appoints the Borrower (and with respect to any Variable Rate Bond the Borrower and any related Credit Facility Provider of such Variable Rate Bond or either of

them) as its attorney-in-fact and agent with full authority to perform any covenant or obligation any failure in the performance of which is alleged to constitute a default by the Issuer, in the name and stead of the Issuer with full power to do any and all things and acts with power of substitution.

#### SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF BENEFICIARIES

The Issuer and the Trustee may, from time to time and at any time, without the consent of, or notice to, any of the Bondowners or any Other Beneficiary (except to the extent, if any, required pursuant to a Supplemental Indenture authorizing the issuance of a series of Bonds), and when so required by the Indenture will, enter into an indenture or indentures supplemental to the Indenture as will not be inconsistent with the terms and provisions of the Indenture (which Supplemental Indenture or Indentures will thereafter form a part of the Indenture), so as to thereby (1) cure any ambiguity or formal defect or omission in the Indenture or in any Supplemental Indenture, (2) grant to or confer upon the Trustee for the benefit of the Beneficiaries any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Beneficiaries or the Trustee, (3) describe or identify more precisely any part of the Trust Estate or subject additional revenues, properties or collateral to the lien and pledge of the Indenture, (4) evidence the appointment of a separate trustee or a co-trustee or the succession of a new Trustee under the Indenture, (5) authorize issuance of a series of Bonds, subject to the requirements of the conditions to issuance of Additional Bonds in the Indenture) or (6) modify the Indenture (including deletions of or changes to provisions of the Indenture or additions to the Indenture or any combination of deletions, changes and additions) as required by any Credit Facility Provider or otherwise necessary to give effect to any Credit Enhancement Facility or Remarketing Agreement authorized to be issued under the Indenture, at the time of issuance of a series of Bonds to which such agreements relate; provided that no such modifications will be effective (1) if the consent of any Bondowners would be required therefor under the provisions contained in the paragraph below and such consent has not been obtained, or (2) if the Trustee determines that such modifications are to the prejudice of any Other Beneficiary.

#### SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BENEFICIARIES

Exclusive of Supplemental Indentures covered in the immediately preceding paragraph and subject to the terms and provisions contained in this paragraph, and not otherwise, the Indenture may be amended from time to time by a Supplemental Indenture consented to by the Borrower and approved by the Requisite Consent of Bondowners and each other Person which must consent to such Supplemental Indenture as provided in any then outstanding Supplemental Indenture authorizing the issuance of a series of Bonds; provided that no amendment will be made which affects the rights of some but less than all the Outstanding Bonds without the Requisite Consent of Bondowners so affected; and provided further that unanimous written consent of the Bondowners will be required for any amendment with respect to (1) the amount or due date of any principal, purchase price, premium or interest payment upon any Bonds, (2) the mandatory redemption provisions of any Bonds, (3) the optional and mandatory tender provisions of any Bonds

and (4) the provisions of the Indenture relating to Supplemental Indentures and Amendments of Loan Agreement, Promissory Notes and Credit Enhancement Facilities.

If at any time the Issuer requests the Trustee to enter into any Supplemental Indenture for any of the purposes of the immediately preceding paragraph, the Trustee will, upon being satisfactorily indemnified with respect to expenses, mail a copy of the notice by first-class mail to each Owner of the Bonds and to each Other Beneficiary. Such notice will briefly set forth the nature of the proposed Supplemental Indenture and will state that copies thereof are on file at the Trustee's Principal Office for inspection by all Beneficiaries. If within six months following the giving of such notice, the execution of any such Supplemental Indenture has have been consented to and approved as herein provided, no Owner of any Bond or Beneficiary will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as in the immediately preceding paragraph permitted and provided, the Indenture will be deemed to be modified and amended in accordance therewith.

#### CONSENT OF BORROWER AND ISSUER

No Supplemental Indenture will become effective unless the Issuer has consented in writing thereto, and no Supplemental Indenture which affects any rights of the Borrower will become effective unless and until the Borrower has consented in writing to the execution and delivery of such Supplemental Indenture.

#### CONSENT OF CREDIT FACILITY PROVIDERS AND REMARKETING AGENTS

So long as any Credit Enhancement Facility or Remarketing Agreement is in effect, (1) no Supplemental Indenture which materially adversely affects the rights, duties or immunities of any related Credit Facility Provider or Remarketing Agent, the Credit Enhancement Facility or a Remarketing Agreement will become effective unless and until delivery to the Trustee of a written consent of any related Credit Facility Provider or a Remarketing Agent, as required, to such Supplemental Indenture, and (2) the Trustee will promptly furnish to the Credit Facility Provider and the Remarketing Agent a copy of each Supplemental Indenture.

#### OPINION REQUIRED PRIOR TO EXECUTION OF SUPPLEMENTAL INDENTURE

No Supplemental Indenture will be executed unless, prior to the execution thereof, the Issuer has provided to the Trustee an opinion of Bond Counsel to the effect that the execution and delivery of such Supplemental Indenture will not cause an Event of Taxability.

#### AMENDMENTS NOT REQUIRING CONSENT OF BENEFICIARIES

The Issuer and the Trustee may without the consent of or notice to the Bondowners or any Other Beneficiary (except to the extent if any, required pursuant to such Loan Agreement or any related Credit Enhancement Facility or a Supplemental Indenture authorizing the issuance of a series of Bonds) agree to any amendment, supplement change or modification of the Loan Agreement, any Promissory Note or any related Credit Enhancement Facility in connection with any change therein for any of the following purposes:

(a) to add additional covenants of the Borrower or Other Beneficiaries, as the case may be, or to surrender any right or power therein conferred upon the Borrower or Other Beneficiaries, as the case may be, or to add additional security for the performance of their respective obligations;

(b) authorize issuance of additional Promissory Notes and Loans under the Loan Agreement which correspond to additional series of Bonds created under a Supplemental Indenture that does not require consent of Beneficiaries; and

(c) to make such other provisions in regard to matters or questions arising thereunder as is not inconsistent with the provisions of the Indenture and will not, in the judgment of the Trustee, adversely affect the interests of the Owners of the Bonds or Other Beneficiaries.

#### AMENDMENTS REQUIRING CONSENT OF BENEFICIARIES

Except for amendments, changes or modifications as provided in the immediately preceding paragraph, neither the Issuer nor the Trustee will consent to any amendment of the Loan Agreement, any Promissory Note or any Credit Enhancement Facility without the giving of notice and the Requisite Consent of Bondowners and each other Person which must consent to such amendment as provided in the then outstanding Loan Agreement, Promissory Note or Credit Enhancement Facility; provided, that no amendment will be consented to which affects the rights of some but less than all the Outstanding Bonds without the Requisite Consent of Bondowners so affected; and provided further that the Trustee will not without the unanimous written consent of the Bondowners consent to any amendment which would (1) decrease the amounts payable on any Credit Enhancement Facility or any Promissory Note, (2) change the date of payment of principal of or premium or interest on any Promissory Note, or (3) change the section of the Loan Agreement that relates to the Borrower's limited obligation to make payments to the Trustee in an amount sufficient to pay the principal and interest on the Bonds.

#### CONSENT OF BORROWER AND CREDIT FACILITY PROVIDER

No amendment, change or modification under the Indenture relating to amendments of the Loan Agreement, the Promissory Notes and the Credit Enhancement Facility which affects any rights or obligations of the Borrower will become effective unless and until the Borrower has consented in writing thereto. No amendment, change

or modification under the Indenture relating to amendments of the Loan Agreement, the Promissory Notes and the Credit Enhancement Facility which affects any rights or obligations of any related Credit Facility Provider will become effective unless and until such Credit Facility Provider has consented in writing thereto.

#### DISCHARGE

If the Issuer pays or causes to be paid the principal, premium, if any, and interest due or to become due on any Bond at the times and in the manner stipulated therein, and if the Issuer is not in default in any of the covenants and promises in such Bonds and in the Indenture expressed as to be kept, performed and observed by it or on its part, and pays or cause to be paid to the Trustee all sums of money due or to become due according to the provisions thereof, then the Indenture and the estate and rights granted will cease, terminate and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture and execute and deliver to the Issuer such instruments in writing as will be requisite to cancel and discharge the lien of the Indenture, and reconvey, release, assign and deliver unto the Issuer any and all the estate, right, title and interest in and to any and all property conveyed, assigned or pledged to the Trustee or otherwise subject to the lien of the Indenture, except moneys or securities held by the Trustee in separate segregated trust accounts pursuant to nonpresentment of Bonds and any Supplemental Indenture for the payment of the principal of, premium, if any, and interest on unrepresented Bonds or the purchase of Untendered Bonds (as defined in the Supplemental Indenture creating such series of Bonds).

Any Bonds will be deemed to be paid within the meaning of the immediately preceding paragraph when payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture, or otherwise) either (1) has been made in accordance with the terms of the Indenture or (2) has been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment, (a) moneys sufficient to make such payment or (b) Government Obligations not redeemable at the option of the Issuer or anyone acting on its behalf, maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys to make such payment, and all necessary and proper fees and expenses of the Trustee pertaining to the Bond with respect to which such deposit is made. At such time as a Bond is deemed to be paid under the Indenture as aforesaid, it will no longer be deemed to be Outstanding under the Indenture and will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing, no deposit under clause (2) of the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until:

(a) The deposit has been made under the terms of an escrow trust agreement in form and substance satisfactory to the Trustee consistent herewith, which will identify the Bonds covered thereby;

(b) In the case of an escrow trust deposit with respect to Bonds subject to redemption prior to maturity at the option of the Borrower, the Borrower has delivered a Borrower's Certificate designating when such Bonds are to be paid or redeemed under the terms of such escrow trust agreement;

(c) In case of Bonds which are to be redeemed prior to maturity from such escrow trust deposit, a redemption notice meeting the requirements of the Indenture and stating that such Bonds are being redeemed from a deposit made pursuant to the requirements for discharge under the Indenture either (1) has been given, or (2) has been provided for by delivery to the Trustee of irrevocable instructions for the giving of such notice;

(d) The Trustee has been furnished with an opinion of Bond Counsel to the effect that the payment of the Bonds in accordance with said escrow trust agreement will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof and will not cause the Bonds to be classified as "arbitrage bonds" under Section 148 of the Internal Revenue Code; and

(e) The Trustee has given notice of such deposit to the Owner of each such Bond at the address shown on the Bond Register.

Notwithstanding any provision of any other Article of the Indenture which may be contrary to the provisions described above, all moneys or Government Obligations set aside and held in trust pursuant to the provisions of the provisions described above for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Government Obligations have been so set aside in trust.

#### PERMITTED INVESTMENT OF TRUST FUNDS

Moneys held in the Trust Funds will be separately invested and reinvested by the Trustee in accordance with the Indenture and the Loan Agreement. Each investment will be held by or under the control of the Trustee and will be deemed at all times to be part of the particular Trust Fund in which such moneys were held. Income and interest from any such investment will be credited to the Trust Fund for whose account the investment was made except that, in the case of the Cost of Issuance Fund, such income and interest will be credited to the Program Fund and in the case of the Reserve Fund and the Special Debt Service Reserve Fund, such income and interest will be credited to the Bond Fund. Any net loss realized and resulting from any such investment will be charged to the particular Trust Fund for whose account the investment was made.

All such investments and reinvestments will be made in Qualified Investments having a maturity not later than the estimated time when the moneys so invested will be needed for the purposes of the Trust Fund of which they are a part. Moneys in the Bond

Fund will be invested only in Government Obligations. Moneys in the Reserve Fund and the Special Debt Service Reserve Fund will be invested only in Qualified Investments having a maturity date of one year or less.

The Trustee may make and execute any such investment through its own bond department, money center or other investment operation or through the bond department, money center or investment operation of any affiliated bank.

#### ARBITRAGE

The Issuer covenants under the Indenture that it will take no action to permit any investment or other use of the proceeds of the Bonds which would cause any Bond to be classified as an "arbitrage bond" within the meaning of Section 148 the Internal Revenue Code or any proposed, temporary or final regulations issued thereunder.

In the event the Issuer or the Borrower is of the opinion (supported by an opinion of Bond Counsel) that it is necessary or advisable to restrict or limit the yield on the investment of any moneys held in any Trust Fund in order to avoid the Bonds being considered "arbitrage bonds" within the meaning aforesaid, the Issuer may (and will if so requested by the Borrower) issue to the Trustee a written certificate to such effect together with appropriate written instructions, in which event the Trustee will take such action as is necessary so to restrict or limit the yield on such investment in accordance with such certificate and instructions, irrespective of whether the Trustee shares such opinion.

### THE LOAN AGREEMENT

*The following, in addition to information provided elsewhere in this Official Statement, summarizes certain provisions of the Loan Agreement entered into between the Borrower and the Issuer, to which reference is made for a full and complete statement of the provisions thereof.*

#### SERIES 2007A LOAN

The Issuer will, upon the terms and conditions of the Loan Agreement, lend to the Borrower the proceeds of the Series 2007A Bonds for the purpose of refunding a portion of the Series 2003A Bonds.

#### PROVISION FOR REVENUES TO PAY THE SERIES 2007A BONDS

Concurrently with or preceding the issuance of the Series 2007A Bonds, the Borrower will execute and deliver the Series 2007A Promissory Note to the Issuer for assignment to the Trustee as evidence of the Borrower's obligation to repay the Series 2007A Loan and to provide the Issuer with revenues sufficient to pay the Series 2007A Bonds in accordance with their terms solely from the proceeds of Intradistrict Aid.

#### PLEDGE OF INTRADISTRICT AID

The Borrower pledges, assigns, hypothecates and transfers to the Issuer, all of the Borrower's right, title and interest in and to the Intradistrict Aid, and grants to the Issuer a lien on, and security interest in, its right, title and interest in and to Intradistrict Aid, the interest thereon and all proceeds thereof, as collateral security for the prompt and complete payment when payable from time to time by the Borrower of all amounts payable under the Loan Agreement. The pledge is for the equal and ratable benefit and security of all Promissory Notes issued and to be issued under the Loan Agreement. The Borrower agrees to do all things necessary to remain eligible to receive Intradistrict Aid in an amount sufficient to pay principal and interest on all Outstanding Bonds. Pursuant to the Agreement dated as of February 14, 2002, by and among the State Department of Administration, acting on behalf of the State, the Department of Public Instruction, acting on behalf of the State, the Borrower, and the Issuer, the Borrower agrees to cause the Department of Public Instruction to cause the Department of Administration to deposit all Intradistrict Aid the Borrower is entitled to receive directly to the Trustee.

#### PLEDGE AND ASSIGNMENT TO TRUSTEE

Simultaneously with the delivery of the Loan Agreement, the Issuer will pledge and assign to the Trustee under the Indenture all of the Issuer's right, title and interest in and to the Promissory Notes, the Intradistrict Aid, the Loan Agreement and all of the Issuer's rights to receive payments thereunder and hereunder; provided, however, that the Issuer reserves the right to enforce the Unassigned Rights in its own name and for its own account. The Borrower consents to such pledge and assignment and agrees that the Trustee may enforce any and all rights, privileges and remedies of the Issuer (other than Unassigned Rights) under or with respect to the Promissory Notes, the Intradistrict Aid and the Loan Agreement.

#### LIMITED OBLIGATION TO PROVIDE THE ISSUER WITH REVENUES

The Borrower agrees to make payments to the Trustee (for the account of the Issuer) in lawful money of the United States of America and in such amounts and at such times (if not sooner required under the terms of the Loan Agreement) as is necessary to enable the Trustee to make full and prompt payment when due (whether at stated maturity, upon redemption prior to stated maturity or upon acceleration of stated maturity), of the principal of, premium, if any, and interest on all Bonds issued or to be issued under the Indenture. The obligation of the Borrower to make the payments required by the Loan Agreement will be limited, as provided in the Loan Agreement; and until such time as the principal of, premium, if any, and interest on the Bonds is paid or provided for in accordance with the Indenture, the Borrower: (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments provided for in the Loan Agreement; (ii) will perform and observe all its other agreements contained in the Loan Agreement; and (iii) will not terminate the Loan Agreement for any cause including without limiting the generality of the foregoing, failure of the Program. Nothing contained in this paragraph will be construed to release the Issuer from the

performance of any of the agreements on its part contained in the Loan Agreement and if the Issuer fails to perform any such agreement on its part, the Borrower may institute such action against the Issuer as the Borrower may deem necessary to compel performance, provided that no such action violates the agreements on the part of the Borrower contained in this paragraph, or diminish the amounts required to be paid by the Borrower pursuant to this paragraph. See "SUMMARY OF PRINCIPAL BOND DOCUMENTS-*The Loan Agreement*-Source of Payment for the Loan" herein.

#### AMENDMENTS TO PROGRAM

The Borrower has the right to amend its Program as the Borrower deems necessary or desirable; provided, however that no amendment to the Program will (i) adversely affect the legality of the Series 2002A Bonds, the 2003A Bonds, the 2007A Bonds or the exclusion of interest thereon from gross income under Section 103(a) of the Internal Revenue Code, (ii) to the best knowledge of the Borrower, violate the Establishment Clause of the First Amendment to the Constitution or (iii) be inconsistent with the Loan Agreement regarding representations for the benefit of the Issuer described below.

#### ADDITIONAL BONDS

Subject to the condition precedents listed below, the Issuer may issue Additional Bonds from time to time to fund Additional Loans to the Borrower for any or a combination of the following purposes:

(a) "Program Purposes," namely to finance the costs of completing the Program in the event the proceeds of the Series 2002A Bonds issued to finance the Program are insufficient and to finance (including the funding of temporary borrowings) the acquisition, construction or installation of land or depreciable property or leasehold interest in depreciable property to further the Program;

(b) "Refunding Purposes," namely to fund, refund or advance refund any one or more series of Outstanding Bonds; and

(c) to pay the financing, legal, accounting, printing and other costs incidental to the issuance and sale of the Additional Bonds.

The Borrower acknowledges in the Loan Agreement that the Issuer has not committed itself to issue any Additional Bonds or to make any Additional Loans. However, subject to the conditions specified in the paragraph below, the Issuer agrees in the Loan Agreement to give prompt and good faith consideration to each request of the Borrower under the Loan Agreement.

#### CONDITIONS PRECEDENT

The Issuer will not issue any Additional Bonds and will not make any Additional Loan unless:

(a) Each condition specified in the Indenture for the issuance of Additional Bonds has been satisfied; and

(b) The Borrower and the Issuer have entered into a Supplemental Loan Agreement providing for the Additional Loan; and

(c) The Borrower has evidenced the Additional Loan by the execution and delivery of a Promissory Note which corresponds to the Additional Bonds and the Additional Loan in the same manner that the Series 2002A Promissory Note corresponds to the Series 2002A Bonds and the Series 2002A Loan; and

(d) The Borrower has furnished evidence satisfactory to the Issuer and the Trustee of the due authorization for the borrowing represented by the Additional Loan.

#### OPTIONAL PREPAYMENT OF THE SERIES 2007A LOANS

##### Determination of Taxability

At the option of the Borrower, the Series 2007A Loan may be prepaid in whole or in part, on any date, upon a Determination of Taxability. To exercise such option, the Borrower shall give notice to the Issuer and the Trustee at least 45 days prior to the date specified therein as the redemption date. Such notice shall refer to the appropriate section of the Loan Agreement, shall state the principal amount of the prepayment, and shall direct the redemption of a like principal amount of Series 2007A Bonds pursuant to the Third Supplemental Indenture on a specified authorized redemption date for which the notice of Redemption required by the Indenture can be given. The redemption price for any such redemption shall be 100% of the principal amount of the Series 2007A Bonds or portions thereof so redeemed, plus accrued interest to the Redemption Date.

If less than all Outstanding Series 2007A Bonds are to be so redeemed, the aggregate principal amount available for redemption will be allocated among the various Maturities of Outstanding Series 2007A Bonds in the proportions (as nearly as practicable given the minimum authorized denomination) that the principal amount of Outstanding Series 2007A Bonds of each particular maturity bears to the aggregate principal amount of all Outstanding Series 2007A Bonds. If less than all Outstanding Series 2007A Bonds of a particular maturity are to be so redeemed, the particular Series 2007A Bonds or portions thereof of such maturity to be redeemed shall be selected by the Trustee by lot or by such other random means as determined by the Borrower.

##### Optional Prepayment of the Series 2007A Loan

At the option of the Borrower, the Series 2007A Loan may be prepaid in whole or in part (in multiples of \$5,000), on any date commencing August 1, 2017. The redemption price for any such redemption shall be 100% of the principal amount of the Series 2007A Bonds or portions thereof so redeemed, plus accrued interest to the

redemption dated, and without premium. To exercise such option the Borrower shall give notice to the Issuer and the Trustee at least 45 days prior to the date specified therein as the redemption date. Such notice shall refer to the Loan Agreement, shall state the principal amount of the prepayment, and shall direct the redemption of a like principal amount of Series 2007A Bonds pursuant to the Third Supplemental Indenture on a specified authorized redemption date for which the notice of Redemption required by the Indenture can be given. The redemption price for any such redemption shall be 100% of the principal amount of the Series 2007A Bonds or portions thereof so redeemed, plus accrued interest to the Redemption Date.

If less than all Outstanding Series 2007A Bonds are to be so redeemed, the particular Series 2007A Bonds or portions thereof to be redeemed shall be selected from such stated Maturities as the Borrower may elect (or, in the absence of such an election, in the inverse order of there stated Maturity dates) and within a stated maturity by lot or by such other random means as the Borrower shall determine in its discretion. Any such means of selecting Bonds for redemption will provide for the possibility of partial redemption of any Bond of a denomination greater than the smallest authorized denomination.

#### OPTIONAL PREPAYMENT OF ADDITIONAL LOANS

Additional Loans may be prepaid at the option of the Borrower upon such terms as will be specified in the Supplemental Loan Agreements relating thereto. Such terms need not parallel the optional prepayment provisions applicable to the Series 2007A Loan as set forth in the Second Supplemental Loan Agreement, and such terms need not require a ratable allocation of prepayments among the Promissory Notes.

#### DEPOSIT OF PREPAYMENTS IN REDEMPTION FUND

All prepayments of principal on the Loan or any Additional Loan together with the premium, if any, will be deposited by the Trustee when received into the Redemption Fund. The accrued interest paid in connection with any such prepayment will be deposited into the Bond Fund.

#### PURCHASE AND CANCELLATION OF BONDS

The Borrower will have the right to purchase any Outstanding Series 2007A Bond and deliver it to the Trustee for cancellation. Also, the Trustee may purchase any Outstanding Series 2007A Bond for cancellation in accordance with the Indenture. Any such purchase and cancellation of a Series 2007A Bond will ipso facto reduce the unpaid principal balance of the Series 2007A Loan on the date of such cancellation by an amount equal to the unpaid principal amount of such Series 2007A Bond. Any such purchase and cancellation of an Additional Bond will be credited against the related Additional Loan and Promissory Note in the manner and to the extent specified in the related Supplemental Loan Agreement.

#### CORRESPONDING REDEMPTION OF BONDS

All authorized prepayments of the Series 2007A Loan and the Series 2007A Promissory Note shall be applied to a corresponding redemption of the Series 2007A Bonds. Similarly, all prepayments of an Additional Loan (and thus of the Promissory Note evidencing such additional Loan) will be applied to a corresponding redemption of the related Additional Bonds.

#### ACCURACY OF PROGRAM DESCRIPTION AND PROGRAM BUDGET

The Borrower in the Loan Agreement represents that the description of the Program as set forth in the Loan Agreement is accurate in all material respects, that the budget for the Program as set forth in the Loan Agreement is an accurate summary of the Borrower's best estimates, respectively, of the total costs and the Eligible Costs of the Program, except as otherwise specifically indicated in the Loan Agreement.

#### LEGAL EXISTENCE AND AUTHORIZATIONS

The Borrower represents in the Second Supplemental Loan Agreement that it is a body politic duly organized and validly existing under the laws of the State of Wisconsin and that it has obtained all authorizations necessary on its part for the due and valid execution and delivery of the Second Supplemental Loan Agreement and the Series 2007A Promissory Note and the pledge of the Intradistrict Aid, and the assumption of the obligations represented thereby.

#### REGULATORY APPROVALS

The Borrower represents in the Second Supplemental Loan Agreement that no authorization, approval, consent or license of any governmental regulatory body or authority, not already obtained, is required for the valid and lawful execution and delivery the Loan Agreement, the Series 2007A Promissory Notes and the pledge of the Intradistrict Aid by the Borrower or the assumption of the obligations of the Borrower represented thereby.

#### INTRADISTRICT AID

The Borrower represents in the Second Supplemental Loan Agreement that it is eligible for Intradistrict Aid and it knows of no facts that would disqualify it from receiving Intradistrict Aid.

#### PAYMENT OF PROMISSORY NOTES

The Borrower agrees in the Loan Agreement to make the principal, premium, if any, and interest payments on the Promissory Notes in the manner and amounts and the times and places specified solely from proceeds of Intradistrict Aid.

#### SOURCE OF PAYMENT FOR THE LOANS

The obligations of the Borrower under the Loan Agreement and the Promissory Notes are limited obligations of the Borrower payable solely from Intradistrict Aid, and such obligations are not a debt of the Borrower, the City, the Issuer or the State within the meaning of any State constitutional provision, statutory limitation or charter provision or limitation.

#### MORAL OBLIGATION PLEDGE

The Borrower agrees in the Loan Agreement not to take any action that would in any way adversely affect the Moral Obligation Pledge.

#### INSURANCE

The Borrower agrees in the Loan Agreement, both generally and specifically with respect to the Program, that it will insure against such risks in such amounts as the Borrower customarily insures its property.

#### TAX STATUS OF SERIES 2002A BONDS, SERIES 2003A BONDS AND SERIES 2007A

It is intended that the interest on the Series 2002A Bonds, the Series 2003A Bonds and the Series 2007A Bonds be excluded from gross income for Federal income taxation purposes pursuant to Section 103(a) of the Internal Revenue Code. The Borrower agrees in the Loan Agreement that it will take no action which would (and will omit no action the omission of which would) cause an Event of Taxability.

#### ACCOUNTING RECORDS; FINANCIAL STATEMENTS

The Borrower agrees in the Loan Agreement to maintain a system of accounting in accordance with generally accepted accounting principles. Further, the Borrower agrees to maintain a system of Project accounts consistent with the American Institute of Architects Standard Chart of Accounts or, alternatively, another organized chart of Project accounts acceptable to the Issuer and the City Comptroller of the City of Milwaukee, Wisconsin.

The Borrower further agrees to furnish to the Issuer (for its inspection):

(a) A Quarterly Summary Schedule of Program Disbursements and Sources: A summary of disbursements and sources for all eligible Program activities from the Program's inception-to-date. Such disbursements shall be classified by type, according to the summary components presented in the Program Budget. The report will show a comparison of the Program Budget to the total of actual disbursements to date plus a current estimate of the cost-to-complete for each summary component included in the Program Budget. As appropriate, the report will also present these same component totals according to funding source.

(b) A Quarterly Schedule of Project & Non-Project Disbursements and Sources: A listing of disbursements and sources for each Project and non-Project item for the Program from inception-to-date. Such disbursements will be listed for each Project and non-Project item consistent with the Program Budget. For each Project and non-Project item, the listing will show a comparison of the budgeted amount to the total of actual disbursements to date plus an estimate of the cost-to-complete the listed project. Where a Project or non-Project item includes sources other than Loan proceeds, the listing will also present the same disbursement totals according to funding source. The totals of this quarterly schedule will be consistent with the totals shown in the quarterly summary schedule of (a) above.

Any Beneficiary may inspect such reports at the Issuer's address. In addition, the Issuer agrees that upon written request it will furnish the foregoing reports to (i) any owner of more than 10% of the Outstanding Bonds, (ii) each investment banking firm which was an original purchaser of Bonds, (iii) any Other Beneficiary, and (iv) each Rating Agency.

#### EVENTS OF DEFAULT

If any one or more of the following events occur, it is hereby defined as and declared to be and to constitute an "Event of Default" under and for purposes of the Loan Agreement:

(a) Default in the due and punctual payment of any installment of principal or of any payment of interest or premium on any Promissory Note;

(b) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Borrower in the Loan Agreement contained and the continuance thereof for a period of 30 days after receipt by the Borrower of written notice (from the Issuer, the Trustee or the Owners of at least 10% in aggregate principal amount of the Bonds at the time Outstanding) specifying such default and requesting that it be cured; provided, however, that if the default is capable of being cured, but not within such 30 day period, such default shall not become an Event of Default if the Borrower institutes reasonable corrective action within such period and pursues such action diligently until such default is cured; or

(c) An "event of default" (as defined therein) shall have occurred under the Indenture.

#### ACCELERATION

If an Event of Default shall occur, the Trustee (or the Issuer with the consent of the Trustee) may, by written notice to the Borrower, declare the entire outstanding principal balance of the Promissory Notes together with all interest accrued thereon (to

the date of such acceleration) to be immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

#### REMEDIES

If an Event of Default shall occur, the Issuer or the Trustee may pursue any available remedy at law or in equity to realize the payment of the principal of, premium, if any, and interest on the Promissory Notes.

Any amounts collected pursuant to action taken under this section shall be paid to the Trustee and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture), shall be paid to the Borrower.

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**APPENDIX D**

**FORM OF 2007A FINANCIAL GUARANTY INSURANCE POLICY**

[attached hereto]

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# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

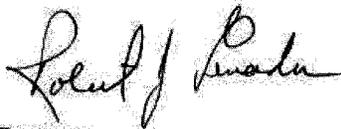
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President





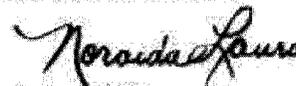
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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**APPENDIX E**  
**FORM OF OPINION OF CO-BOND COUNSEL**

[attached hereto]

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February 1, 2007

\$ \_\_\_\_\_  
Redevelopment Authority of the City of Milwaukee (Wisconsin)  
Revenue Bonds, Series 2007A  
(Milwaukee Public Schools-Neighborhood Schools Initiative)

We have acted as bond counsel in connection with the issuance by the Redevelopment Authority of the City of Milwaukee (the "Issuer") of \$\_\_\_\_\_ Redevelopment Authority of the City of Milwaukee (Wisconsin) Revenue Bonds, Series 2007A (Milwaukee Public Schools-Neighborhood Schools Initiative) (the "Series 2007A Bonds"). We investigated the law and examined such certified proceedings and other papers as we deemed necessary to render this opinion.

The Series 2007A Bonds were issued pursuant to an Indenture of Trust, dated as of February 1, 2002, between the Issuer and The Bank of New York Trust Company National Association (the "Trustee), as supplemented by the Second Supplemental Indenture of Trust, dated as of November 1, 2003, and the Third Supplemental Indenture of Trust, dated as of February 1, 2007, each between the Issuer and the Trustee (as so supplemented, the "Indenture"). The Issuer loaned the Bond proceeds to the Milwaukee Board of School Directors, a body politic, organized and existing under Chapter 119, Wisconsin Statutes (the "Borrower"), pursuant to a Loan Agreement, dated as of February 1, 2002, between the Issuer and the Borrower, as supplemented by the First Supplemental Loan Agreement, dated as of November 1, 2003, and the Second Supplemental Loan Agreement, dated as of February 1, 2007, each between the Issuer and the Borrower (as so supplemented, the "Loan Agreement"). Under the Loan Agreement, the Borrower agreed to make payments sufficient to pay when due the principal of, premium, if any, and interest on the Series 2007A Bonds, solely from Intradistrict Aid payments the Borrower is entitled to receive pursuant to Section 121.85(6) (a), (am) and (ar) of the Wisconsin Statutes, as amended. Such payments ("Loan Repayments") and the rights of the Issuer under the Loan Agreement (except for the right to enforce certain limited provisions of the Loan Agreement) were pledged and assigned by the Issuer as security for the Series 2007A Bonds. The Secretary of Administration of the State of Wisconsin (the "State") has certified that he has reviewed and approved the Series 2007A Bonds and grants the State's moral obligation pledge (the "Moral Obligation Pledge") under Section 66.1333 (5r) (j) of the Wisconsin Statutes, as amended, with respect to the Series 2007A Bonds.

The Series 2007A Bonds are payable solely from (1) Loan Repayments received by the Trustee, (2) any amounts received pursuant to the financial guaranty insurance policy securing the Series 2007A Bonds issued by Ambac Assurance Corporation, (3) all cash and securities held

by the Trustee from time to time in trust funds under the Indenture (other than the Rebate Fund and any Debt Service Reserve Fund), and (4) all payments received by the Issuer from the Moral Obligation Pledge (collectively, the "Pledged Revenues").

As to questions of fact material to our opinion, we relied upon representations and covenants made on behalf of the Issuer and the Borrower contained in the Indenture, the Loan Agreement, certificates of appropriate personnel of the Borrower, certificates of HR Academy, Inc. and the Boys & Girls Clubs of Greater Milwaukee, Inc., and certificates of public officials, without undertaking to verify the same by independent investigation.

We were not engaged and did not undertake to review the accuracy, completeness or sufficiency of the Official Statement dated January \_\_, 2007 (the "Official Statement") or other offering material relating to the Series 2007A Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement). We have not passed upon any matters relating to the business, properties, affairs or condition (financial or otherwise) of the Borrower, and no inference should be drawn that we have expressed any opinion on matters relating to the ability of the Borrower to perform its obligations under the contracts described herein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer lawfully exists as a body corporate and politic of the State of Wisconsin and has the power to issue the Series 2007A Bonds and to enter into and perform the Indenture and the Loan Agreement.

2. The Indenture and the Loan Agreement have been duly authorized, executed and delivered by the respective parties thereto and are valid, binding and enforceable obligations of such parties. The Indenture creates a valid lien on the Pledged Revenues and on the rights of the Issuer under the Loan Agreement (except for the right to enforce certain limited provisions of the Loan Agreement).

3. The Series 2007A Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special and limited obligations of the Issuer, payable solely from the Pledged Revenues. The Series 2007A Bonds and the interest and premium (if any) payable thereon do not constitute an indebtedness of the Issuer within the meaning of any State of Wisconsin constitutional provision or statutory limitation and do not constitute a charge against the general credit or taxing powers of the City of Milwaukee, Wisconsin.

4. The interest accruing on the Series 2007A Bonds is excludable from gross income of the owners of the Series 2007A Bonds for federal income tax purposes as of the date hereof. Interest on the Series 2007A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended (the "Code"); however, such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax

imposed on certain corporations. The Code contains requirements that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order for interest on the Series 2007A Bonds to be or continue to be excludable from the gross income of the owners of the Series 2007A Bonds for federal income tax purposes. Failure to comply with certain of those requirements could cause the interest on the Series 2007A Bonds to be included in gross income retroactively to the date of issuance of the Series 2007A Bonds. The Issuer, the Trustee and the Borrower have agreed to comply with all of those requirements. In addition, HR Academy, Inc. and the Boys & Girls Clubs of Greater Milwaukee, Inc. have covenanted to take all actions within their respective control to comply with the requirements of the Code as must be observed to avoid any loss of exemption from federal income taxation to which interest on the Series 2007A Bonds would otherwise be entitled. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer, the Trustee, the Borrower, HR Academy, Inc. and the Boys & Girls Clubs of Greater Milwaukee, Inc. comply with the requirements of the Code that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order for interest on the Series 2007A Bonds to be or continue to be excludable from the gross income of the owners of the Series 2007A Bonds for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Series 2007A Bonds.

5. Pursuant to Section 66.1333 of the Wisconsin Statutes, as amended, the Series 2007A Bonds, together with interest thereon and income therefrom, are exempt from present Wisconsin income taxes. We note however, that interest on and income from the Series 2007A Bonds are includable in the measure of tax for Wisconsin corporate franchise tax purposes.

6. No registration with the Securities and Exchange Commission under the Securities Act of 1933, as amended, need be made in connection with the offering and sale of the Series 2007A Bonds, and the Indenture and the Third Supplemental Indenture are not required to be qualified under the Trust Indenture Act of 1939, as amended.

The rights of the owners of the Series 2007A Bonds and the enforceability of the Series 2007A Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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