



California Municipal Bond Perspective

July 13, 2009

As California continues to grapple with a deadlocked budget crisis, we would like to take this opportunity to review the state's credit quality for holders of the First American California Tax Free Fund.

Credit spreads on California debt (which measure the difference between yields on California bonds and other high-grade AAA-rated municipal bonds from around the country) have increased to reflect higher levels of credit concern, and we believe bonds are trading at prices that already reflect a fair amount of stress. Of course, as California's economic problems continue, there is a risk that the market values of bonds held by the fund may decrease further, as well as a risk of potential issuer default. We continue to believe, however, that the State of California will not default on its debts. As always, our team of analysts is diligently monitoring each and every holding in the First American California Tax Free Fund portfolio.

California is handicapped by both its own procedural requirements (such as two-thirds required legislative approval to pass budgets and raise taxes) and a relatively volatile tax-revenue base. These issues have long been accompanied by steadily rising expenditures. Since the legislature's recent attempts to pass a budget have failed, the state has now begun issuing IOUs for miscellaneous lower-priority obligations.

Rating agencies have taken note of California's budget struggles. Standard & Poor's put the State's A rating on negative CreditWatch on June 15. On June 19, Moody's Investors Service put California's A2 general obligation (GO) debt rating on its Watchlist for possible downgrade, and Fitch Ratings downgraded California's GO rating to BBB from A- on July 6.

Many observers wonder if the state will end up defaulting on its debts or filing for bankruptcy. While the above events may be concerning to investors, we do not believe the outlook is as dire as is often depicted in the mainstream media.

We believe the state's problems reflect current liquidity issues somewhat more than a longer-term inability to pay its debts. We feel the probability of the state eventually defaulting on its debt-service payments is very low, and if it did occur, would be quickly remedied. The cost of defaulting would be extremely high in terms of market stigma and loss of confidence for any major municipality, such as a state, which is dependent on continued long-term access to the credit markets. It should also be noted that current U.S. bankruptcy law does not specifically give states the right to file for bankruptcy as it clearly does for individuals, businesses, and municipalities. Therefore, while solutions to the state's budget problems are elusive, we continue to have confidence that California will continue to pay its bondholders. We are more concerned about the ultimate effect of the state's issues on weaker local municipal bond issuers, which are directly or indirectly tied to the financial and economic strength of the state and which may have higher default or bankruptcy potential.

– Continued –



FIRST AMERICAN FUNDS.



For additional information on the First American California Tax Free Fund, please contact First American Funds Investor Services at 800-677-3863.

Investors should carefully consider the fund's investment objectives, risks, charges, and expenses before investing. The prospectus contains this and other information; call 800.677.FUND or visit firstamericanfunds.com for a copy. Please read it carefully before investing.

Mutual fund investing involves risk; principal loss is possible.

Investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities.

Income from tax-exempt funds may be subject to state and local taxes, and a portion of income may be subject to federal income tax, including the alternative minimum tax (AMT). Capital gains distributions, if any, may be subject to tax.

Quasar Distributors, LLC, distributor.

7-2009



FIRST AMERICAN FUNDS.