



City of Palo Alto

City Council Staff Report

(ID # 9063)

Report Type: Action Items

Meeting Date: 4/16/2018

Summary Title: Issuance of Golf Course and Refinance of 2002 COP Bonds

Title: Adoption of a Resolution Authorizing the Issuance and Sale of Taxable Certificate of Participation (COP) Bonds Not-to-Exceed \$9.8 Million to (1) Finance the Golf Course Reconstruction, and (2) Refinance the 2002 Downtown Parking Improvement COP Bonds; Approving, Authorizing and Directing the Execution of Certain Lease Financing Documents; Approving a Preliminary Official Statement; and Authorizing and Directing Certain Actions With Respect Thereto

From: City Manager

Lead Department: Administrative Services

Recommendation

1. Staff recommends that the **City Council**:

- Adopt a Resolution Approving, Authorizing, and Directing Execution of Certain Lease Financing Documents, Approving a Preliminary Official Statement, and Authorizing and Directing Certain Actions with Respect Thereto.
- Authorize execution and delivery of taxable Certificates of Participation (COPs) in an amount not to exceed \$9.8 million to: (1) finance the Golf Course Reconstruction; and (2) provide funds for the refinancing of the City's lease payment obligation related to the 2002 Downtown Parking Improvements Certificates of Participation (COPs).

2. Staff recommends that the Council, acting as the **Board of Directors of the Palo Alto Public Improvement Corporation** (Corporation):

- Adopt a Resolution Approving, Authorizing, and Directing Execution of Certain Lease Financing Documents and Authorizing and Directing Certain Actions with Respect Thereto.

Immediately after Council's consideration of Item 1, Council will temporarily adjourn and convene a meeting of the Corporation to hear Item 2. Thereafter, the regular Council meeting

will continue.

Background

1) Golf Course Reconstruction

On June 20, 2016 Council awarded contracts for the Golf Course Reconfiguration Project for a total project cost of \$13.5 million and adopted a resolution declaring the intent to reimburse expenditures from tax-exempt certificates of participation (Report ID: 7032) in an amount not to exceed \$10.5 million. The project was originally funded out of the Capital Improvement Fund Infrastructure Reserve (IR). With the golf course reconstruction complete, it is time to access public financing to reimburse the IR fund.

Typically, project bond financing is done when the project construction begins. In this instance, the golf course financing was deferred in order to minimize financing and administrative expense. Staff was planning for the possibility of financing the golf course renovation at the same time as another project (the potential purchase of the Hamilton Avenue Post Office (PO)). Combining the financing for both projects would have saved approximately \$200,000 in legal, financial and other bond issuance costs. After the Council determined not to purchase the PO staff proceeded with a golf course only financing. The golf course financing will fund \$8.2 million of the project costs. Outside revenue sources funded another \$4.1 million, and the remaining renovation costs of \$1.2 million were funded by the IR. The outside revenue sources include \$1.1 million already received from the importation of soil and \$3.0 million from the San Francisquito Creek Joint Powers Authority (JPA) as a mitigation payment for impacts to the golf course. The City has billed the JPA the \$3 million. To date, we have received \$0.5 million. The JPA will pay the City the remainder after it receives grant reimbursements from the State Department of Water Resources. As to the \$1.1 million, on June 17, 2013, Council awarded a contract to Don Tucker & Son (Report ID: 3827) for the importation and stockpiling of soil for use on the Golf Course Reconfiguration Project. The contractor paid the City for the right to stockpile 365,000 cubic yards of soil on the west side of the golf course. The soil importation process, which was completed in late summer 2015, generated approximately \$1.1 million.

Transformation of the Palo Alto Municipal Golf Course into the Baylands Golf Link has been achieved with a full course redesign by architect Forrest Richardson and construction by Wadsworth Golf. The project included renovation of all 18 course holes, renovation of practice chipping and putting greens, addition of a short game practice area, and addition of a youth learning area. The course has changed from a flat and linear layout to a links style course with some elevation changes providing views of the adjacent Baylands Preserve and San Francisco Bay. The renovation project included all new irrigation lines, a new irrigation system, and a pump station. Course construction is complete and the course is being prepared for a grand opening in May 2018.

Design and construction of the new course incorporated the following green environmental elements which will be highlighted in the preliminary official statement for the COPs:

- Transition from using a mix of potable and recycled water on the old course to using mostly recycled water on the new course by selecting paspalum, a salt tolerant grass.
- Paspalum goes dormant late fall and into early spring in the region, further reducing the need for irrigation.
- Reduction of maintained turf by 40% in comparison to the old course through course design.
- Most of this turf reduction is attributed to conversion from turf to native vegetation and wetlands. In total, there are 55 acres of vegetation and wetlands on a 141 acre golf course.
- 7.4 acres of the previous golf course will be converted to in-stream marshland terrace habitat and used for flood protection by the adjacent levee expansion project.

2) Refinancing of 2002 Downtown Parking Improvements COP Bonds

In January 2002, the City caused \$3.6 million of taxable certificates of participation (2002 COPs) to be executed and delivered to finance construction of a two story building adjacent to the Bryant/Lytton (parking) garage (Lot S/L). As a consequence of the weak economy prior to construction, bids and the eventual construction costs for this building came in lower than anticipated. In January 2005, these surplus proceeds of the 2002 COPs were used to defease and eventually pay off \$0.9 million principal amount of the 2002 COPs, resulting in annual savings of \$85,000. The 2002 COPs are payable from lease payments made by the City for use and occupancy of the Civic Center. The City uses rental revenue from a commercial lessee (Form Fitness) as a source of funds for the Civic Center lease payments.

Discussion

1) Golf Course Reconstruction

Council approval is required in order to sell an amount not to exceed \$9.8 million in taxable bonds through a negotiated sale process in May/June 2018. In a negotiated sale, the City is assisted by its municipal (financial) advisor (Public Financial Management, Inc. (PFM)) in preparing a request for proposal for underwriting services, receiving and evaluating bids, selecting an underwriter, and in negotiating the sale based on the lowest interest cost to the City. Underwriters are investment banking firms who resell the COPs to investors, typically institutional investors like mutual funds. Since taxable municipal COP bonds are less commonly used investment vehicles in the financial community and this issuance is considered small and likely to garner less attention in the financial community, the City's municipal advisor recommends a negotiated sale to optimize the chances of a successful sale at the lowest cost to the City.

The City's municipal advisor sent out an underwriter's request for proposals to 10 financial firms. The RFP requested and the evaluation will consider a proposers willingness to give residents priority in buying some of the COPs and the marketing these as "Green" bonds. Four firms proposed. Two firms declined to submit a proposal, and four did not respond. At the time of writing this report, staff and the City's municipal advisor are evaluating the four proposals. A finalist has not been selected.

Staff is recommending the execution and delivery of a single series of taxable COPs (the interest with respect to the COPs when received by investors would be subject to federal income taxation) because the IRS regulates the use of facilities that are financed with tax-exempt COPs (the interest with respect to the COPs when received by investors would be exempt from federal income taxation) that would restrict how the golf course management contract could be structured which, over the 30 year life of the COPs, could pose operational challenges and risks. For example, under a tax-exempt bond structure, the City's ability to share the risk and reward of golf course performance with the golf course operator would be significantly limited because the IRS requires 50% of the compensation to be fixed regardless of how the golf course performs. One advantage of taxable COPs is the ability to utilize incentive-based enterprise compensation structures whereby the City can compensate the golf course operator primarily on how well the golf course performs in the market. The terms of the three-year agreement with golf course operator OB Sports, this is also scheduled before Council this evening, includes a compensation structure that is permissible with either tax-exempt or taxable bonds. However, staff recommends that the City utilize taxable COPs because it will provide flexibility in the future, should the business and economic landscape change, to use a variety of management agreement types, such as lease agreements and revenue share agreements. Taxable COPs will allow the City, over the life of the taxable COPs, to enter into more financially advantageous management compensation structures. The disadvantage of taxable COPs is that the investors demand a higher interest rate than they would for tax-exempt COPs because the investors' interest income is taxable. The City's municipal advisor estimates that taxable COPs will increase the City's interest cost when compared to tax-exempt COPs by approximately \$21,000 annually or \$0.63 million over 30 years. Staff believes that, over 30 years, the advantage of being able to negotiate incentive-based enterprise compensation agreements will allow the City to share the risks and rewards of golf course performance with its course managers and save the City more than \$0.63 million. The Community Services Department contracted with a golf management professional, James Keegan of Golf Convergence, who has determined the golf course financial projections are reasonable and achievable starting with FY 2019, the first full year of operations of the reconfigured golf course. The projection forecast covers all golf course expenses including the additional taxable financing costs.

If it adopts the attached resolution, the Council would delegate to the City Manager or a designee appointed by the City Manager (e.g. Administrative Services Director) the determination whether it is in the City's best interests to finance all or a portion of the golf course reconstruction project on a tax-exempt basis instead on the taxable basis that is being recommended.

2) Refinancing of 2002 Downtown Parking Improvements COP Bonds

Staff is also recommending the refinancing of the 2002 COPs. Current outstanding principal on the 2002 COPs is \$0.8 million. The municipal advisor estimates that a refinancing of the 2002 COPs would produce present value (PV) savings of \$269,500. The net present value (NPV) savings is a modest \$32,200 or 4.0 percent of outstanding bonds (net of all costs of issuing the

refunding). The main difference between the PV and NPV is the release of the current reserve of \$237,300. Investors in highly rated municipal securities, which we expect the COPs to be, do not require the funding of a debt service reserve fund, which reduces the amount that the City needs to finance. A debt service reserve represents one year's debt service payment. The General Fund and the Teen Program will be the beneficiary of the savings. There is another advantage of refinancing the 2002 COPs: staff will be substituting collateral (most likely a City fire station) with a market value closer to this COP bond issuance amount, in place of the current collateral (the Civic Center). This will provide flexibility to leverage the high value of the Civic Center to finance future infrastructure COP bond issuance (for example, public safety building COPs).

3) Financing Structure and Related Documents

COPs are certificates that represent the right of investors to receive a share of a stream of future lease payments to be made by the City. The City's lease payments can be made from any available source of funds (e.g. golf course revenues). The financing structure, which is similar to past COPs issuances, will involve the following:

- a. The City will lease an asset, most likely Fire Station 1 (Leased Property), to a lease counterparty (Public Improvement Corporation) under a Property Lease (**Attachment A-2**). To utilize COPs as a financing vehicle, the City established a separate legal entity in 1983, in this case a nonprofit corporation, the Palo Alto Public Improvement Corporation (Corporation). Members of the City Council are the Board members of the Corporation.
- b. The Corporation will lease the Leased Property back to the City under a Lease Agreement (**Attachment A-3**). The City will agree to make lease payments to the Corporation for use and occupancy of the Leased Property.
- c. The Corporation will assign certain of its rights under the Lease Agreement to a corporate trustee, in this case U.S. Bank National Association, as trustee for the COPs (Trustee), pursuant to an Assignment Agreement (**Attachment B-1**). The assigned rights include the right to collect lease payments from the City and to enforce payment of the City's lease payments.
- d. Pursuant to a Trust Agreement among the City, the Corporation and the Trustee (**Attachment A-4**), the Trustee will execute and deliver the COPs, which represent the right to receive a portion of the City's lease payments. In this agreement, the Trustee is instructed to deposit the proceeds of the COPs into separate funds for construction and refinancing of the 2002 COPs, and it will also establish a fund for the City's lease payments.
- e. The City will enter into a purchase agreement with an underwriter to purchase the COPs (**Attachment A-5**). The sale proceeds of the COPs will be used to: 1) finance the golf course renovation/reimburse the IR funds; and 2) refinance the 2002 COPs. The

purchase agreement documents the conditions under which the underwriter will purchase the COPs.

- f. The underwriter will sell the COPs to investors. In order to market the COPs, the underwriter will distribute a Preliminary Official Statement (POS) **(Attachment A-6)**. The POS is the offering document for municipal securities, in preliminary form, which does not contain pricing information. It is a disclosure of the finances surrounding the issue of the municipal bond, and is prepared by the legal (disclosure) counsel on behalf of the City. After the COPs have been sold to the underwriter, the City will prepare a final Official Statement, which should be identical to the POS except that it will include the final pricing information about the COPs, including principal amount, interest rate, and prepayment terms.

The distribution of the POS by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the COPs. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the COPs. If the Council concludes that the POS includes all facts that would be material to an investor in the Obligations, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over the City’s compliance with the federal securities laws, has issued guidance as to the duties of the Council with respect to its approval of the Preliminary Official Statement. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the COPs, whether relating to their repayment, tax-exempt status (if applicable), undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the POS. In the Release, the SEC stated that the steps that a member of the Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

Appendix G to the POS is the Continuing Disclosure Certificate, under which the City will agree to provide certain financial and operating data of the type included in the POS to owners of the COPs on an annual basis, and information about certain enumerated events when they occur.

- g. Upon refinancing of the 2002 COPs, the City will cause a Termination Agreement **(Attachment A-1)** to be recorded in the Santa Clara County real property records in order to provide notice of the discharge of the 2002 COPs and the related financing documents. Terminating the financing documents will allow the City to utilize the Civic Center as a leased asset for future financings.

4) Approval of Documents

Staff from the Administrative Services, Community Services and Public Works departments and the City Attorney's Office has worked with the City's municipal advisor (PFM), bond counsel (Jones Hall) and disclosure counsel (Quint & Thimmig, LLP) to structure the financing and draft the financing documents attached to this staff report. A ratings presentation to Standard and Poor's will occur on April 12th. Once the rating results are released, staff will report the results. In addition, Community Services staff hired James Keegan of Golf Convergence to revisit the financial pro-forma previously prepared to evaluate the current golf market conditions.

The following documents need the Council's approval before the COP's can be sold by a negotiated sale in May/June 2018. The documents below are grouped according to actions that the City Council must approve, and those that the City Council acting as the Board of Directors of the Corporation must approve.

City Council Approval: Resolution Approving, Authorizing, and Directing Execution of Certain Lease Financing Documents, Approving a Preliminary Official Statement, and Authorizing and Directing Certain Actions with Respect Thereto **(Attachment A)**.

The resolution authorizes the Mayor, City Manager, the Administrative Services Director/Chief Financial Officer or their designee to sign and execute various documents, and to make any changes to those documents that are minor in nature. Council is also approving as to form the Preliminary Official Statement containing information material to the offering and sale of the COPs. The documents staff will sign with Council's approval are:

- Termination Agreement **(Attachment A-1)**
- Property Lease **(Attachment A-2)**
- Lease Agreement **(Attachment A-3)**
- Trust Agreement **(Attachment A-4)**
- Purchase Agreement **(Attachment A-5)**
- Preliminary Official Statement **(Attachment A-6)**

Approval by the City Council Acting as **Board of Directors of the Public Improvement Corporation:** Resolution Approving, Authorizing, and Directing Execution of Certain Lease Financing Documents, and Authorizing and Directing Certain Actions with Respect Thereto **(Attachment B)**

- Assignment Agreement **(Attachment B-1)**

Timeline (2018)

April 12 th	Standard and Poor's (S&P) Rating Presentation
Week of April 2 nd	Select Underwriter (For a Negotiated Sale)
Week of April 23 rd	Receive S&P's Rating
Week of April 30 th	Issue 30-Day Conditional Pre-payment Notice for 2002 COPs
Week of May 1 st	Final Official Statement Printed and Posted
Week of May 28 th	COPs Negotiation Finalized
Week of May 28 th	Receive COPs Proceeds
Week of June 4 th	Reimbursement to Infrastructure Reserve (IR)

Resource Impact

The COPs will fund \$8.2 million of the golf course project costs. Outside revenue sources funded another \$4.1 million, and the remaining renovation costs of \$1.2 million were funded by the IR (Report ID: 7032). The outside revenue sources include \$1.1 million already received from the importation of soil and \$3.0 million from the San Francisquito Creek JPA as a mitigation payment for impacts to the golf course. The City has billed the JPA the \$3 million; we have received \$0.5 million to date. Assuming a 30-year amortization period, an estimated True Interest Cost (TIC) of 4.2 percent, and \$9.0 million in bond proceeds, the estimated average annual lease/debt service payment for the golf course COP over the first four years is \$359,600 and the last 26 years is \$517,400 and for the 2002 COP refinance, with a little over 4 years remaining, is \$158,700. The debt service along with the operating costs of the golf course will be paid with operating revenues from the golf course. The 2002 COP refinance debt services will be paid by the (Form Fitness) lease revenue.

Issuance costs (underwriter's fees, bond and disclosure counsel fees, municipal (financial) advisory fees, rating agency fees, municipal bond insurance premium, etc.) will be paid through the sale of the COPs, in much the same way that closing costs are paid in a home sale escrow process. The estimated issuance costs is \$232,000 (cost breakdown is shown in Attachment C).

Policy Implications

The City's debt policy states "the City will consider a refunding only when there is a net economic benefit" and it also has a standard guideline of a net present value savings of at least 3 percent for initiating a refunding. The latter requirement is to provide a cushion for achieving an economic benefit in the event interest rates increase more than anticipated and the expected savings decline.

Approval of the 2002 COP bonds refinancing meets the net economic benefit requirement (estimated NPV savings of \$32,200) but is very close to the 3 percent guideline. However, because the refinancing of the 2002 COPs will be combined with the financing of the golf course reconstruction, the additional cost of issuance for the 2002 COPs refinancing is nominal and the refinancing can be cancelled without any financial penalty should the economic benefit disappear prior to these bonds being sold. Also, another major benefit of this refinancing is

substituting the existing Civic Center collateral with another City asset (expected to be Fire Station 1) that has a market value closer to the combined golf course and 2002 COP principal amount. This will provide flexibility in leveraging the high market value of the Civic Center for future infrastructure financings (e.g. public safety building COPs, etc.).

Environmental Review

The financing proposed for approval is not a project under the California Environmental Quality Act; therefore, an environmental review is not required. The City certified an Environmental Impact Report (EIR) for the golf course reconstruction project.

Attachments:

- Attachment A: City Resolution Approving, Authorizing & Directing Execution of Certain Lease Financing Documents
- Attachment A-1: Termination Agreement
- Attachment A-2: Property Lease
- Attachment A-3: Lease Agreement
- Attachment A-4: Trust Agreement
- Attachment A-5: Purchased Agreement
- Attachment A-6: Preliminary Official Statement (POS) including the Continuing Disclosure Certificate
- Attachment B: Public Impvt Corporation Resolution Approving, Authorizing & Directing Execution of Certain Lease Refinancing Documents
- Attachment B-1: Assignment Agreement
- Attachment C: Cost of Issuance

NOT YET APPROVED

Resolution No. _____

A RESOLUTION OF THE CITY OF PALO ALTO
APPROVING, AUTHORIZING AND DIRECTING EXECUTION OF CERTAIN LEASE FINANCING
DOCUMENTS, APPROVING A PRELIMINARY OFFICIAL STATEMENT, AND AUTHORIZING AND
DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

R E C I T A L S

WHEREAS, the Palo Alto Public Improvement Corporation, a nonprofit public benefit corporation duly formed, organized operating and acting pursuant to the laws of the State of California (the "Corporation") has heretofore leased the Palo Alto Civic Center to the City pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City now wishes to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course (the "Golf Course"), located at 1875 Embarcadero Road (the "Golf Course Improvements");

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (the "Certificates");

NOT YET APPROVED

Attachment A

WHEREAS, staff has recommended that the City cause the Certificates to be executed and delivered in a single series the interest on which would be taxable under federal tax law in order to preserve the maximum ongoing flexibility for Golf Course management; however, in order to ensure that the financing is ultimately structured in the most cost-effective manner, the City Council wishes to delegate to the City Manager or a designee appointed by the City Manager (e.g. Administrative Services Director) the final determination of whether it is desirable and in the City's best interest to have the City cause to be executed and delivered a second series of certificates of participation the interest on which would be exempt from federal tax law to finance all or a portion of the Golf Course Improvements;

WHEREAS, the City further proposes to lease its Fire Station 1, located at 301 Alma Street (or another property identified by staff) (the "Leased Property"), to the Corporation under a Property Lease by and between the City, as lessor, and the Corporation, as lessee (the "Property Lease"), and to cause the Corporation to lease the Leased Property back to the City under a Lease Agreement, by and between the City, as lessee, and the Corporation, as lessor (the "Lease Agreement"), in consideration of the payment by the City of semi-annual lease payments;

WHEREAS, the City further proposes to cause the Corporation to assign its right to receive such lease payments to U.S. Bank National Association, as trustee (the "Trustee"), under an Assignment Agreement (the "Assignment Agreement"), by and between the Corporation and the Trustee, and in consideration of such assignment the Trustee has agreed to execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments, in accordance with a Trust Agreement to be executed by and among the Trustee, the City and the Corporation (the "Trust Agreement");

WHEREAS, in connection therewith, it is in the public interest and for the public benefit that the City authorize and direct execution of the Lease Agreement and certain other financing documents in connection therewith;

WHEREAS, pursuant to Government Code Section 5852.1, which became effective on January 1, 2018 by the enactment of Senate Bill 450, certain information relating to the Certificates is set forth in Appendix A attached to this Resolution, and such information is hereby disclosed and made public;

WHEREAS, pursuant to the City's authorization, Quint & Thimmig LLP, as disclosure counsel to the City, has prepared and presented to the City a form of preliminary official statement containing information material to the offering and sale of the Certificates (the "Preliminary Official Statement"); and

WHEREAS, the documents below specified have been filed with the City, and the members of the City Council, with the aid of its staff, have reviewed said documents.

NOW, THEREFORE, the Council of the City of Palo Alto RESOLVES as follows:

NOT YET APPROVED

Attachment A

SECTION 1. The below-enumerated documents be and are hereby approved, and the Mayor, the City Manager, the Administrative Services Director or a designee appointed by any such officer (in each case, an "Authorized Officer") are hereby separately authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the City Clerk is hereby authorized and directed to attest to such Authorized Officer's signature:

- (a) The Property Lease, relating to the lease of the Leased Property by the City to the Corporation, by and between the City, as lessor, and the Corporation, as lessee;
- (b) The Lease Agreement, relating to the lease of the Leased Property by the Corporation back to the City, between the Corporation, as lessor, and the City, as lessee;
- (c) The Trust Agreement, by and among the Corporation, the City and the Trustee, relating to the execution and delivery of the Certificates, evidencing the fractional interests of the owners thereof in lease payments to be made by the City under the Lease Agreement;
- (d) A Termination Agreement, relating to the termination of the 2002 Lease, between the Corporation and the City and acknowledged by the 2002 Trustee;
- (e) A Purchase Agreement among the City, the Corporation and _____, as underwriter of the Certificates (the "Underwriter"), specifying the terms and conditions upon which the Certificates are to be sold to the Underwriter; and
- (f) A continuing disclosure certificate under which the City will agree to provide certain information on a continuing basis.

SECTION 2. The Council hereby authorizes the execution and delivery of the Certificates, and the sale of the Certificates to the Underwriter in the aggregate principal amount of not to exceed \$9,800,000. The true interest cost of the Certificates may not exceed 5.0% and the Underwriter's discount may not exceed 0.80% of the principal amount of the Certificates.

SECTION 3. The City Manager or a designee appointed by the City Manager (e.g. Administrative Services Director) is hereby authorized and directed to determine whether it is desirable and in the City's best interest for the City to cause to be executed and delivered a second series of certificates of participation the interest on which would be exempt from federal tax law to finance all or a portion of the Golf Course Improvements, either in lieu of or in addition to the taxable series. If the City Manager or a designee appointed by the City Manager determines that a second series should be executed and delivered, all references to the Certificates in this resolution shall refer to both series.

NOT YET APPROVED

Attachment A

SECTION 4. The City Manager or a designee appointed by the City Manager is additionally authorized to add a “Green Bonds” designation to the name of the Certificates if he determines, after consultation with the City’s municipal advisor, that doing so would be in the best interests of the City.

SECTION 5. Each Authorized Officer, the City Clerk and all other officials of the City are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the lease financing and refinancing herein authorized, and to identify an alternative parcel of property as the Leased Property in place of Fire Station 1. Whenever in this resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

SECTION 6. The City hereby approves the Preliminary Official Statement describing the Certificates, in the form on file with the Director of Administrative Services. The Underwriter is hereby authorized to distribute the Preliminary Official Statement in connection with the sale of the Certificates. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the Underwriter a certificate deeming the Preliminary Official Statement to be final as of its date within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, (b) approve any changes in or additions to cause such Preliminary Official Statement to be put in final form, and (c) execute said final official statement (the “Final Official Statement”) for and in the name and on behalf of the City.

SECTION 7. The Authorized Officers are separately authorized to approve corrections and additions to the Preliminary Official Statement by supplement or amendment thereto, or otherwise as appropriate, provided that any such corrections or additions shall be necessary to cause the information contained therein to conform with facts material to the Certificates, or to the proceedings of the City or such corrections or additions are in form rather than in substance.

SECTION 8. The Mayor, the City Manager and the Administrative Services Director are separately authorized and directed to cause the Preliminary Official Statement to be brought into the form of a final official statement and to execute said Final Official Statement, dated as of the date of the sale of the Certificates, and the City Manager and Administrative Services Director are separately authorized and directed to execute a statement that the facts contained in the Final Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Certificates, true and correct in all material respects and that the Final Official Statement did not, on the date of sale of the Certificates, and does not, as of the date of delivery of the Certificates, contain any untrue statement of a material fact with respect to the City or omit to state material facts with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. The Mayor, the City Manager or the Administrative Services Director shall take such

NOT YET APPROVED

Attachment A

further actions prior to the signing of the Final Official Statement as are deemed necessary or appropriate to verify the accuracy thereof.

SECTION 9. The Final Official Statement, when prepared, is approved for distribution by the Underwriter in connection with the offering and sale of the Certificates.

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

SECTION 11. The Council finds that the adoption of this resolution does not meet the definition of a project under Public Resources Code Section 21065, thus, no environmental assessment under the California Environmental Quality Act is required.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

City Attorney

City Manager

Jones Hall,
A Professional Law Corporation

Director of Public Works

By: _____
Christopher K. Lynch,
Jones Hall, A Professional Law Corporation
Bond Counsel

Director of Administrative Services

Attachment A-1

Jones Hall Draft 2018-03-21

PLEASE RECORD, AND
WHEN RECORDED, RETURN TO:
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Attention: Christopher K. Lynch, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11922 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 6103 OF THE CALIFORNIA GOVERNMENT CODE.

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT is made and entered into as of [] [], 2018, by and among the PALO ALTO PUBLIC IMPROVEMENT CORPORATION, a nonprofit corporation duly organized and existing under the laws of the State of California (the "Corporation"), the CITY OF PALO ALTO, a chartered municipal corporation organized and existing under the laws of the State of California (the "City"), and acknowledged by U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee for the 2002 Certificates of Participation described below (the "2002 Trustee").

RECITALS

WHEREAS, the City and the Corporation have previously entered into the following agreements related to the property more fully described in Exhibit A hereto:

(i) the Property Lease, dated as of January 1, 2002 (the "2002 Property Lease"), executed by the City, as lessor, and the Corporation, as lessee, recorded [] [], 2002 as Instrument No. 2002-[] of Official Records in Santa Clara County, and

(ii) the Lease Agreement, dated as of January 1, 2002 (the "2002 Lease Agreement"), executed by the Corporation, as lessor, and the City, as lessee, recorded [] [], 2002 as Instrument No. 2002-[] of Official Records in Santa Clara County;

WHEREAS, the Corporation has previously assigned certain of its rights under the 2002 Property Lease and the 2002 Lease Agreement, including the right to receive lease payments under the 2002 Lease Agreement (the "2002 Lease Payments"), to the 2002 Trustee under an Assignment Agreement dated as of January 1, 2002 (the "2002 Assignment"), by and between the Corporation and

the 2002 Trustee, recorded [] [], 2002 as Instrument No. 2002-[] of Official Records in Santa Clara County;

WHEREAS, the 2002 Trustee acts as trustee for the certificates of participation captioned "City of Palo Alto Certificates of Participation Series 2002A (Tax-Exempt) and Series 2002B (Taxable) (Civic Center Refinancing and Downtown Parking Improvements Project)," originally issued in the principal amount of \$7,055,000 (the "2002 Certificates of Participation") pursuant to a Trust Agreement, dated as of January 1, 2002 by and among the City, the Corporation, and the 2002 Trustee (the "2002 Trust Agreement"); and

WHEREAS, as of the date hereof, the 2002 Certificates of Participation have been repaid in full and the 2002 Lease Payments have been fully prepaid and discharged.

NOW, THEREFORE, in consideration of the foregoing and for other consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Termination. Effective as of the date hereof, by virtue of the Corporation's repayment of all of the 2002 Certificates of Participation and the City's prepayment of the 2002 Lease Payments, (i) all obligations of the City and the Corporation under the 2002 Property Lease and the 2002 Lease Agreement have ceased and terminated, and (ii) the right of the 2002 Trustee to receive 2002 Lease Payments under the 2002 Lease Agreement and the 2002 Assignment has terminated.

In accordance with the foregoing, effective as of the date hereof, (i) the 2002 Property Lease, 2002 Lease Agreement and 2002 Assignment are hereby terminated and are of no further force or effect and (ii) none of the parties shall have any further rights or obligations under the 2002 Property Lease, 2002 Lease Agreement and 2002 Assignment except as expressly provided therein.

Section 2. Execution in Counterparts. This Termination Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 3. Applicable Law. This Termination Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have duly executed this Termination Agreement as of the first date set forth above.

PALO ALTO PUBLIC
IMPROVEMENT
CORPORATION

By _____
[Patrick Burt]
President

Attest:

By _____
[Beth Minor]
Secretary

CITY OF PALO ALTO

By _____
Lalo Perez
Director of Administrative
Services

[S E A L]

Attest:

By _____
Beth Minor
City Clerk

ACKNOWLEDGED:

U.S. BANK NATIONAL
ASSOCIATION, as 2002 Trustee

By _____
Authorized Officer

EXHIBIT A

Description of the Leased Property

Attachment A-2

Jones Hall Draft 2018-03-21

PLEASE RECORD, AND
WHEN RECORDED, RETURN TO:

Christopher K. Lynch, Esq.
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111

PROPERTY LEASE

Dated as of [] 1, 20[]

by and between the

CITY OF PALO ALTO,
as Lessor

and the

PALO ALTO PUBLIC IMPROVEMENT CORPORATION,
as Lessee

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PROPERTY LEASE

THIS PROPERTY LEASE, dated for convenience as of [] 1, 2018, by and between the CITY OF PALO ALTO, a chartered municipal corporation duly organized and existing under the Constitution and laws of the State of California, as lessor (the "City"), and the PALO ALTO PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation duly formed, organized and acting pursuant to the laws of the State of California (the "Corporation"), as lessee; and

WITNESSETH:

WHEREAS, the Corporation has heretofore leased the Palo Alto Civic Center to the City pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City now wishes to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road (the "Golf Course Improvements");

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "Certificates");

WHEREAS, in connection with the refinancing of the 2002 Lease, the 2002 Lease has been duly terminated pursuant to a Termination Agreement, dated as of [] [], 2018, between the City and the Corporation, and acknowledged by U.S. Bank National Association in its capacity as the 2002 Trustee;

WHEREAS, the City shall lease certain real property, as more particularly described in Exhibit A hereto (the "Leased Property") to the Corporation pursuant to this Property Lease, and the Corporation shall lease the Leased Property back to the City pursuant to a lease agreement by and between the City, as lessee, and the Corporation, as lessor (the "Lease Agreement"), in consideration of the payment by the City of semi-annual Lease Payments (as defined in the Lease Agreement); and

WHEREAS, the Corporation has assigned its right to receive such lease payments to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to an Assignment Agreement, dated as of [] 1, 2018, by and between the Corporation and the Trustee (the "Assignment Agreement"), and in consideration of such assignment the Trustee will execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments, in accordance with a Trust Agreement, dated as of [] 1, 2018, by and among the City, the Corporation and the Trustee (the "Trust Agreement").

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. All terms specifically defined in the Trust Agreement dated as of [] 1, 2018 by and among U.S. Bank National Association, as trustee, the Corporation and the City (the "Trust Agreement") shall have the same respective meanings when used herein. In addition, the following terms defined in this Section 1.01 shall have the respective meanings herein set forth when used herein.

"Lease Agreement" means the Lease Agreement, dated as of [] 1, 2018, by and between the Corporation as lessor and the City as lessee, together with any duly authorized and executed amendments thereto.

"Leased Property" means certain real property, as more particularly described in Exhibit A hereto.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Assignment Agreement; (iii) this Property Lease and the Lease Agreement; (iv) the Trust Agreement; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date on which the Certificates are delivered to the purchasers thereof and which the City certifies in writing will not materially impair the use of the Leased Property; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of this Property Lease and to which the Corporation and the City consent in writing.

"Property Lease" means this Property Lease, together with any duly authorized and executed amendments hereto.

"Property Lease Payment" means the payment required to be paid by the Corporation on the Closing Date pursuant to Section 3.03.

Section 1.02. Article and Section Headings. Unless otherwise specified, references to Articles, Sections, and other subdivisions of this Property Lease are to be designated Articles, Sections, and other subdivisions of this Property Lease as originally executed. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

Section 1.03. References to Agreement. The words "hereof", "herein", "hereunder", and words of similar import refer to this Property Lease as a whole.

Section 1.04. Number and Gender. The singular form of any word used herein, including terms defined as provided in Section 1.01, shall include the plural, and vice versa. The use of a word of any gender shall include all genders.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.01. Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Corporation as follows:

(a) Due Organization and Existence. The City is a chartered municipal corporation duly organized and existing under the Constitution and laws of the State.

(b) Authorization. The laws of the State authorize the City to enter into this Property Lease and to enter into the transactions contemplated by and to carry out its obligations under this Property Lease, and the City has duly authorized and executed this Property Lease.

(c) No Violations. Neither the execution and delivery of this Property Lease nor the fulfillment of or compliance with the terms and conditions hereof nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the City, or upon the Leased Property, except Permitted Encumbrances.

Section 2.02. Representations, Covenants and Warranties of Corporation. The Corporation represents, covenants and warrants to the City as follows:

(a) Due Organization and Existence. The Corporation is a nonprofit public benefit corporation duly formed, operating and existing under the laws of the State; has power to enter into the Property Lease; is possessed of full power to sublease real and personal property; and has duly authorized the execution and delivery of this Property Lease.

(b) Authorization. The laws of the State authorize the Corporation to enter into this Property Lease and to enter into the transactions contemplated by and to carry out its obligations under this Property Lease, and the Corporation has duly authorized and executed this Property Lease.

(c) No Violations. Neither the execution and delivery of this Property Lease nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation, or upon the Leased Property, except Permitted Encumbrances.

ARTICLE III

AGREEMENT TO LEASE; TERM OF PROPERTY LEASE; PROPERTY LEASE PAYMENT

Section 3.01. Lease. The City hereby leases the Leased Property to the Corporation, and the Corporation hereby leases the Leased Property from the City, upon the terms and conditions set forth in this Property Lease.

Section 3.02. Term. The term of this Property Lease shall commence on the Closing Date and shall end on May 1, 20[], unless such term is extended as hereinafter provided. If on May 1, 20[], the Trust Agreement shall not be discharged by its terms, then the Term of this Property Lease shall be extended until the Trust Agreement shall be discharged by its terms (but in no event beyond May 1, 20[]). If prior to May 1, 20[], the Trust Agreement shall be discharged by its terms, the Term of this Property Lease shall thereupon end.

Section 3.03. Property Lease Payment. The Corporation hereby agrees to pay to the City, as rental for the use and occupancy of the Leased Property during the term of this Property Lease, the amount of \$[], which shall be due and payable on the Closing Date, and which shall be deemed to have been paid when the proceeds of the Certificates are deposited with the Trustee. No further amounts shall be due and payable by the Corporation to the City under this Property Lease.

Section 3.04. Title. Title to the Leased Property shall reside in the City, and during the term of this Property Lease, the City shall hold title to the Leased Property and any and all additions which comprise fixtures, repairs, replacements or modifications to the Leased Property, including those fixtures, repairs, replacements or modifications which are added to the Leased Property by the City at its own expense and which may be removed without damaging the Leased Property and including any items added to the Leased Property by the City pursuant to Section 5.8 of the Lease Agreement.

Section 3.05. No Merger. It is the express intention of the parties hereto that this Property Lease and the obligations of the parties hereunder shall be and remain separate and distinct from the Lease Agreement and the obligations of the parties thereunder, and that during the term of the Lease Agreement no merger of title or interest occur or be deemed to occur as a result of the position of the City as lessee under the Lease Agreement and as lessor under this Property Lease, or the position of the Corporation as lessee under this Property Lease.

ARTICLE IV

EMINENT DOMAIN; NET PROCEEDS

Section 4.01. Eminent Domain. If all of the Leased Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of this Property Lease shall cease as of the day possession shall be so taken. If less than all of the Leased Property shall be taken permanently, or if all of the Leased Property or any part thereof shall be taken temporarily, under the power of eminent domain, this Property Lease shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary.

Section 4.02. Application of Net Proceeds. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property or any improvements thereon by fire or other casualty, and the Net Proceeds of any eminent domain award resulting from any event described in Section 4.01 hereof, shall be applied as set forth in Section 6.2 of the Lease Agreement. All such Net Proceeds shall be paid to the City or the Trustee as their interests may appear under the Lease Agreement, and the Corporation hereby waives any and all right, title and interest which it may have in and to any such Net Proceeds by virtue of its estate in the Leased Property under this Property Lease.

ARTICLE V

MISCELLANEOUS

Section 5.01. Liens. The Corporation shall not, directly or indirectly, create, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Corporation and the City as herein provided and Permitted Encumbrances.

Section 5.02. Assignment and Subleasing by the Corporation. For the purpose of providing funds to enable the Corporation to pay the Property Lease Payment on the Closing Date, the Corporation has leased the Leased Property to the City pursuant to the Lease Agreement. The Corporation shall not have the right to further sublease or to assign any of its interests under this Property Lease in and to the Leased Property or any portion thereof.

Section 5.03. Amendment. Without the prior written consent of the Trustee, the Corporation and the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel this Property Lease, excepting only such alteration or modification as may be permitted by Article X of the Trust Agreement.

Section 5.04. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received 48 hours after deposit in the United States mail in registered or certified form with postage fully prepaid:

If to the City:	City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Corporation:	Palo Alto Public Improvement Corporation c/o City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Trustee:	U.S. Bank National Association Attn: Global Corporate Trust Services One California Street, Suite 1000 San Francisco, CA 94111 Fax: 415-677-3768

The Corporation, the Trustee and the City, by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

Section 5.05. Binding Effect. This Property Lease shall inure to the benefit of and shall be binding upon the Corporation and the City and their respective successors and assigns.

Section 5.06. Severability. In the event any provision of this Property Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 5.07. Further Assurances and Corrective Instruments. The Corporation and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Property Lease.

Section 5.08. Execution in Counterparts. This Property Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.09. Applicable Law. This Property Lease shall be governed by and construed in accordance with the laws of the State.

Section 5.10. Corporation and City Representatives. Whenever under the provisions of this Property Lease the approval of the Corporation or the City is required, or the Corporation or the City is required to take some action at the request of the other, such approval or such request shall be given for the Corporation by an Corporation Representative and for the City by an Corporation Representative, and any party hereto shall be authorized to rely upon any such approval or request.

Section 5.11. Captions. The captions or headings in this Property Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Property Lease.

* * * * *

IN WITNESS WHEREOF, the Corporation has caused this Property Lease to be executed in its name by its duly authorized officers; and the City has caused this Property Lease to be executed in its name by its duly authorized officers and sealed with its corporate seal, as of the date first above written.

CITY OF PALO ALTO, as Lessor

By _____
Lalo Perez
Director of Administrative Services

(S E A L)

Attest:

By _____
Beth Minor
City Clerk

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION, as Lessee

By _____
[Patrick Burt]
President

Attest:

By _____
[Beth Minor]
Secretary

STATE OF CALIFORNIA)
) ss
COUNTY OF _____)

On _____ before me, _____, Notary Public,
personally appeared _____, personally known to me or proved to me
on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

EXHIBIT A
DESCRIPTION OF LEASED PROPERTY

[Fire Station 1]

Attachment A-3

Jones Hall Draft 2018-03-21

PLEASE RECORD, AND
WHEN RECORDED, RETURN TO:

Christopher K. Lynch, Esq.
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111

LEASE AGREEMENT

Dated as of [] 1, 2018

by and between the

PALO ALTO PUBLIC IMPROVEMENT CORPORATION,
as Lessor

and the

CITY OF PALO ALTO,
as Lessee

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LEASE AGREEMENT

THIS LEASE AGREEMENT, dated for convenience as of [] 1, 2018, is by and between the PALO ALTO PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation formed, operating and acting pursuant to the laws of the State of California (the "Corporation") as lessor, and the CITY OF PALO ALTO, a chartered municipal corporation duly organized and existing under the Constitution and laws of the State of California, as lessee (the "City").

RECITALS

WHEREAS, the Corporation has heretofore leased the Palo Alto Civic Center to the City pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City now wishes to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road (the "Golf Course Improvements");

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "Certificates");

WHEREAS, in connection with the refinancing of the 2002 Lease, the 2002 Lease has been duly terminated pursuant to a Termination Agreement, dated as of [] [], 2018, between

the City and the Corporation, and acknowledged by U.S. Bank National Association in its capacity as the 2002 Trustee;

WHEREAS, the City has concurrently leased certain real property, as more particularly described in Exhibit B hereto (the "Leased Property") to the Corporation under a Property Lease, dated as of [] 1, 2018, by and between the City, as Lessor, and the Corporation, as Lessee (the "Property Lease"), and the Corporation shall lease the Leased Property back to the City pursuant to this Lease Agreement, in consideration of the payment by the City of semi-annual Lease Payments (as defined below);

WHEREAS, the Corporation has assigned its right to receive such lease payments to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to an Assignment Agreement, dated as of [] 1, 2018, by and between the Corporation and the Trustee (the "Assignment Agreement"), and in consideration of such assignment the Trustee will execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments, in accordance with a Trust Agreement, dated as of [] 1, 2018, by and among the City, the Corporation and the Trustee (the "Trust Agreement"); and

WHEREAS, the City is authorized under its charter and the Constitution and the laws of the State of California to enter into this Lease Agreement for the purposes and subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1. Definitions. All terms specifically defined in the Trust Agreement shall have the same respective meanings when used herein. In addition, the following terms defined in this Section 1.1 shall have the respective meanings herein set forth when used herein.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of delivery of this Lease Agreement or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of delivery of this Lease Agreement, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code

"Escrow Fund" means the escrow fund created under the Section 3.04 of the Trust Agreement.

"Golf Course Construction Costs" means all costs of payment of, or reimbursement for, [design, construction, installation and equipping of the Golf Course Project, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums and permit fees, and includes Costs of Issuance not paid out of the Costs of Issuance Fund.]

"Golf Course Construction Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.03 of the Trust Agreement.

"Golf Course Project" means those certain improvements to be made to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road.

"Lease Agreement" means this Lease Agreement, together with any duly authorized and executed amendments hereto.

"Lease Payment Date" means April 15 and October 15 of each year during the term of this Lease Agreement, commencing [April 15], 20[18].

"Leased Property" means certain real property, as more particularly described in Exhibit B hereto.

"Lease Payments" means the taxable Lease Payments shown on Exhibit A.

"Original Purchaser" means the first purchaser of the Certificates upon their delivery by the Trustee.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Assignment Agreement; (iii) the Property Lease and this Lease Agreement; (iv) the Trust Agreement; (v) any right or claim of

any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Leased Property; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of this Lease Agreement and to which the Corporation and the City consent in writing and (viii) any items listed in the title report issued by Stewart Title Guaranty on the date of execution and delivery of the Certificates.

"Property Lease" means the Property Lease, dated as of [] 1, 2018, recorded concurrently herewith, by and between the City, as lessor, and the Corporation, as lessee, together with any duly authorized and executed amendments thereto.

"Property Lease Payment" means the payment required to be paid by the Corporation on the Closing Date pursuant to Section 3.03 of the Property Lease.

"Regulations" means temporary and permanent regulations promulgated under the Code.

"Rental Period" means each twelve-month period during the term of this Lease Agreement commencing on May 2 in any year and ending on the next succeeding May 1, except that the first rental period shall commence on the Closing Date.

"Trust Agreement" means the Trust Agreement dated as of [] 1, 2018 by and among Trustee, the Corporation and the City, relating to the Certificates.

"Trustee" means U.S. Bank National Association, and its successors and assigns.

Section 1.2. Article and Section Headings. Unless otherwise specified, references to Articles, Sections, and other subdivisions of this Lease Agreement are to be designated Articles, Sections, and other subdivisions of this Lease Agreement as originally executed. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

Section 1.3. References to Agreement. The words "hereof", "herein", "hereunder", and words of similar import refer to this Lease Agreement as a whole.

Section 1.4. Number and Gender. The singular form of any word used herein, including terms defined as provided in Section 1.1, shall include the plural, and vice versa. The use of a word of any gender shall include all genders.

Section 1.5. Exhibits. The following Exhibits are attached to, and by reference made a part of, this Lease Agreement:

Exhibit A: The schedule of taxable Lease Payments to be paid by the City hereunder with respect to the Leased Property, showing the date and amount of each such taxable Lease Payment.

Exhibit B: The description of the Leased Property.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1. Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Corporation as follows:

(a) Due Organization and Existence. The City is a chartered municipal corporation duly organized and existing under the Constitution and laws of the State.

(b) Authorization. The laws of the State authorize the City to enter into the Property Lease, this Lease Agreement and the Trust Agreement and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid Agreements, and the City has duly authorized and executed all of the aforesaid Agreements.

(c) No Violations. Neither the execution and delivery of the Property Lease, this Lease Agreement or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the City, or upon the Leased Property, except Permitted Encumbrances.

(d) Possession of Leased Property. The City is in possession of the Leased Property.

Section 2.2. Representations, Covenants and Warranties of Corporation. The Corporation represents, covenants and warrants to the City as follows:

(a) Due Organization and Existence. The Corporation is a nonprofit public benefit corporation duly organized, operating and existing under the laws of the State of California; has power to enter into the Property Lease, this Lease Agreement, the Assignment Agreement and the Trust Agreement; is possessed of full power to lease real and personal property; and has duly authorized the execution and delivery of all of the aforesaid Agreements.

(b) No Encumbrances. The Corporation will not pledge the Lease Payments or any other amounts derived from the Leased Property and from its other rights under this Lease Agreement, and will not mortgage or encumber the Leased Property, except as provided under the terms of the Property Lease, this Lease Agreement, the Assignment Agreement or the Trust Agreement.

(c) No Violations. Neither the execution and delivery of the Property Lease, this Lease Agreement, the Assignment Agreement or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation, or upon the Leased Property, except Permitted Encumbrances.

(d) No Assignments. Except as provided herein, the Corporation will not assign this Lease Agreement, its right to receive Lease Payments from the City, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this Section 2.2.

ARTICLE III

DEPOSIT OF MONEYS; ACQUISITION AND CONSTRUCTION OF THE GOLF COURSE PROJECT; SUBSTITUTION AND REMOVAL OF LEASED PROPERTY

Section 3.1. Deposit of Moneys. On the Closing Date, the Corporation shall cause to be deposited with the Trustee the proceeds of the sale of the Certificates, which shall be applied as set forth in Section 3.01 of the Trust Agreement.

Section 3.2. Acquisition and Construction of the Golf Course Project. The Corporation hereby appoints the City as its agent for the purposes of construction, installation and equipping of the Golf Course Project. The City, as agent of the Corporation, shall cause the construction, installation and equipping of the Golf Course Project to be performed diligently.

Section 3.3. Payment of Golf Course Construction Costs. Payment for the construction, installation and equipping of the Golf Course Project shall be made from the moneys deposited in the Golf Course Construction Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with Section 3.03 of the Trust Agreement.

Section 3.4. Payment of Costs of Issuance. Payment of Costs of Issuance shall be made from the moneys deposited in the Costs of Issuance Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with the Trust Agreement.

Section 3.5. Substitution of Leased Property. The City shall have, and is hereby granted, the option at any time and from time to time during the term of this Lease Agreement, to substitute other land, facilities, improvements or other property (a "Substitute Property") for the Leased Property or any portion thereof (a "Former Property"), provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution:

(a) The City shall notify S&P in writing of such substitution, which notice shall contain the certification that all conditions set forth in this Section 3.5 are met with respect to such substitution;

(b) The City shall take all actions and shall execute all documents required to subject such Substitute Property to the terms and provisions of this Lease Agreement, including the filing with the Corporation and the Trustee of an amended Exhibit B which adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property, and including the recordation of this Lease Agreement or a memorandum hereof with respect to such Substitute Property in the office of the Santa Clara County Recorder;

(c) The City shall certify in writing that the estimated fair market value of such Substitute Property is at least equal to the aggregate principal components of the unpaid Lease Payments;

(d) The City shall certify in writing to the Corporation and the Trustee that such Substitute Property serves the public purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California;

(e) The City shall certify in writing to the Corporation and the Trustee that the estimated useful life of such Substitute Property at least extends to the date on which the final Lease Payment becomes due and payable hereunder;

(f) The City shall obtain a CLTA policy of title insurance meeting the requirements of Section 5.4 with respect to such Substitute Property; and

(g) The Substitute Property shall not cause the City to violate any of its covenants, representations and warranties made herein or in the Trust Agreement.

From and after the date on which all of the foregoing conditions precedent to such substitution are satisfied, the term of this Lease Agreement shall cease with respect to the Former Property and shall be continued with respect to the Substitute Property, and all references herein to the Former Property shall apply with full force and effect to the Substitute Property. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

Section 3.6. Removal of Property from Leased Property. The City shall have, and is hereby granted, the option at any time and from time to time during the term of this Lease Agreement, to remove any property from the description of the Leased Property, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such removal:

(a) The City shall notify S&P in writing of such removal, which notice shall contain the certification that all conditions set forth in this Section 3.6 are met with respect to such removal;

(b) The City shall file with the Corporation and the Trustee an amended Exhibit B, which deletes therefrom the description of the property to be removed;

(c) The City shall certify in writing that the estimated fair market value of the Leased Property that will remain following such removal is at least equal to the aggregate principal components of the unpaid Lease Payments, and that the useful life of the Leased Property is not less than the final payment date of the unpaid Lease Payments; and

(d) The City shall obtain and cause to be filed with the Trustee and the Corporation an opinion of Bond Counsel stating that such removal is permitted hereunder and does not cause interest with respect to the Series 2018A Certificates to become includable in the gross income of the Series 2018A Certificate Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such removal are satisfied, the term of this Lease Agreement shall cease with respect to the property which is so removed. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such removal.

ARTICLE IV

AGREEMENT TO LEASE; TERM OF LEASE AGREEMENT; LEASE PAYMENTS

Section 4.1. Agreement to Lease. The Corporation hereby subleases the Leased Property to the City, and the City hereby subleases the Leased Property from the Corporation, upon the terms and conditions set forth in this Lease Agreement.

Section 4.2. Term of Lease Agreement. The term of this Lease Agreement shall commence on the Closing Date and shall end on May 1, 20[] unless such term is extended as hereinafter provided. If on May 1, 20[], the Trust Agreement shall not be discharged by its terms, then the term of this Lease Agreement shall be extended until the Trust Agreement shall be discharged by its terms (but in no event beyond May 1, 20[]). If prior to May 1, 20[], the Trust Agreement shall be discharged by its terms, the term of this Lease Agreement shall thereupon end. The provisions of this Section 4.2 are subject to the provisions of Section 6.1 relating to the taking in eminent domain of the Leased Property or any portion thereof.

Section 4.3. Lease Payments. (a) Obligation to Pay. Subject to the provisions of Articles VI and X, the City agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Leased Property hereunder during each Rental Period, the Lease Payments (denominated into components of principal and interest) for the Leased Property in the amounts specified in Exhibit A, to be due and payable on the Lease Payment Dates specified in Exhibit A.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to Article X and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Leased Property payable in any Rental Period shall be for the use of the Leased Property during such Rental Period.

(b) Effect of Prepayment. In the event that the City prepays all remaining Lease Payments, including any premium, if any, in full pursuant to Article X, the City's obligations under this Lease Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Lease Payments under this Section 4.3; subject however, to the provisions of Section 10.1 in the case of prepayment by application of a security deposit. In the event that the City purchases the Leased Property pursuant to Section 10.2, the amount paid pursuant to Section 10.2 shall be credited entirely towards the prepayment in full or in part of the Lease Payments. In the event that the City prepays the Lease Payments in part but not in whole pursuant to Section 10.3 as a result of any insurance award or condemnation award with respect to the Leased Property, such prepayment shall be credited entirely towards the prepayment of the Lease Payments as follows: (i) the principal components of the remaining Lease Payments shall be reduced on a pro rata basis in integral multiples of \$5,000; and (ii) the

interest component of the remaining Lease Payments shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby prepaid pursuant to Section 4.01(A) of the Trust Agreement.

(c) Fair Rental Value. The Lease Payments for the Leased Property for each Rental Period shall constitute the total rental for the Leased Property during each Rental Period, and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments for the Leased Property do not exceed the fair rental value of the Leased Property. In making such determination, consideration has been given to the estimated value of the Leased Property, the obligations of the parties under the Property Lease and this Lease Agreement, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

(d) Budget and Appropriation. The City covenants to take such action as may be necessary to include all Lease Payments due hereunder in each of its budgets during the term of this Lease Agreement and to make the necessary annual appropriations for all such Lease Payments, except to the extent such Lease Payments are payable from amounts on deposit in the Lease Payment Fund. During the term of this Lease Agreement, the City will furnish to the Trustee a certificate that the Lease Payments due in the applicable Fiscal Year have been included in the City's budget for such Fiscal Year within thirty (30) days after the adoption of each budget. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the City.

(e) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Corporation to the Trustee in trust, pursuant to the Assignment Agreement, for the benefit of the Owners of the Certificates, and the City hereby assents to such assignment. The Corporation hereby directs the City, and the City hereby agrees to pay to the Trustee at its Corporate Trust Office, all payments payable by the City pursuant to this Section 4.3 and all amounts payable by the City pursuant to Article X.

Section 4.4. Quiet Enjoyment. The Corporation shall provide the City with quiet use and enjoyment of the Leased Property, and the City shall, for the remainder of the term of this Lease Agreement, peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Corporation, except as expressly set forth in this Lease Agreement. The Corporation will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation shall have the right to inspect the Leased Property as provided in Section 7.2.

Section 4.5. Title. During the term of this Lease Agreement, the City shall hold title to the Leased Property and any and all additions which comprise fixtures, repairs, replacements or

modifications to the Leased Property, including those fixtures, repairs, replacements or modifications which are added to the Leased Property by the City at its own expense and which may be removed without damaging the Leased Property and including any items added to the Leased Property by the City pursuant to Section 5.8 hereof. Such title shall be governed by the provisions of Section 3.04 of the Property Lease during the term of the Property Lease.

If the City prepays the Lease Payments in full pursuant to Article X, or makes the security deposit permitted by Section 10.1, or pays all Lease Payments during the term of this Lease Agreement as the same become due and payable, all right, title and interest of the Corporation under the Property Lease in and to the Leased Property (determined in accordance with Sections 3.01 or 3.04 thereof) shall be terminated. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such termination of leasehold estate.

Section 4.6. Additional Payments. In addition to the Lease Payments, the City shall pay when due, during the term of the Lease Agreement, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation or indemnification due to the Trustee and all reasonable costs and expenses of auditors, engineers and accountants.

Section 4.7. No Merger. It is the express intention of the parties hereto that this Lease Agreement and the obligations of the parties hereunder shall be and remain separate and distinct from the Property Lease and the obligations of the parties thereunder, and that during the term of the Property Lease no merger of title or interest shall occur or be deemed to occur as a result of the position of the City as lessor under the Property Lease and as lessee hereunder, or as a result of the position of the Corporation as lessee under the Property Lease and as lessor under this Lease Agreement.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 5.1. Maintenance, Utilities, Taxes and Assessments. Throughout the term of this Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof. In exchange for the Lease Payments herein provided, the Corporation agrees to provide only the Leased Property, as hereinbefore more specifically set forth. The City waives the benefits of Section 1942 of the California Civil Code, and waives the right to make repairs at the expense of the Corporation or in lieu thereof, vacate under Section 1942 of the California Civil Code, and all similar rights under the statutes of similar effect, but such waiver shall not limit any of the rights of the City under the terms of this Lease Agreement.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the City affecting the Leased Property or the interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of this Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Leased Property will be materially endangered or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

Section 5.2. Modification of Leased Property. The City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto pursuant to this Section, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the

making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to this Section; provided that if any such lien is established and the City shall first notify or cause to be notified the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Section 5.3. Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the term of this Lease Agreement, a standard comprehensive general insurance policy or policies in protection of the Corporation, City, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 (subject to a deductible clause of not to exceed \$250,000, or such higher amount as the City shall determine, provided that such higher deductible shall be considered a self insured retention) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 per occurrence covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

Section 5.4. Fire and Extended Coverage Insurance; Title Insurance. (i) The City shall procure and maintain, or cause to be procured and maintained, throughout the term of this Lease Agreement, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Said insurance shall also cover loss or damage to any portion of the Leased Property from earthquake; provided that the City shall have no obligation to obtain earthquake insurance if such insurance is not commercially available at a reasonable cost. Such insurance shall be in an amount at least equal to the greater of (i) 100% of the replacement cost (without deducting for depreciation) of the Leased Property and (ii) the aggregate principal amount of Certificates at the time outstanding. Other than earthquake insurance, such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Earthquake insurance, if any, may be subject to deductible clauses of not to exceed 10% of such replacement cost for any one loss. Such insurance may be maintained

as part of or in conjunction with any other fire and extended coverage carried by the City. The City hereby assigns to the Corporation all right of the City to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Net Proceeds of such insurance shall be applied as provided in Section 6.2(a).

(ii) The City shall procure, and deliver to the Trustee on the Closing Date, a title insurance policy which insures the leasehold estate created under this Agreement, in an amount equal to the principal amount of the Certificates.

SECTION 5.5. Rental Interruption Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the term of this Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Golf Course Project, as a result of any of the hazards covered in the insurance required by Section 5.4, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive Fiscal Years during the remaining term of this Lease Agreement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Section 5.6. Insurance Net Proceeds; Form of Policies. Each policy of insurance required by Sections 5.4 and 5.5 hereof shall provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required hereunder. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease Agreement. All such policies shall provide that the Trustee shall be given thirty (30) days notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee. The City shall cause to be delivered to the Trustee annually, on or before January 1 of each year, commencing January 1, [2019], a certificate of the City that the insurance policies required by this Lease Agreement are in full force and effect.

Section 5.7. Advances. If the City shall fail to perform any of its obligations under this Article the Corporation may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City shall be obligated to repay all such advances as soon as possible, with interest at the rate of ten percent (10%) per annum from the date of the advance to the date of repayment.

Section 5.8. Installation of City's Equipment. The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall

remain the sole property of the City, in which neither the Corporation nor the Trustee shall have any interest, and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to this Section under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

Section 5.9. Liens. The City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Corporation and the City as herein provided and Permitted Encumbrances. Except as expressly provided in this Article, the City shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Section 5.10. Compliance With Property Lease. During the term of the Property Lease, the City will observe and perform all agreements and obligations on its behalf required to be observed and performed thereunder. The City will not take any action or permit any action within its control to be taken which constitutes or which, if not corrected, with the passage of time or with notice, or both, would constitute or cause to occur any default under the Property Lease.

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Section 6.1. Eminent Domain. If the Leased Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of this Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property shall be taken permanently, or if the Leased Property or any part thereof shall be taken temporarily, under the power of eminent domain, (1) this Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments hereunder, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants to contest any eminent domain award which is insufficient to either: (i) prepay the Certificates in whole, if all of the Leased Property is condemned; or (ii) prepay a pro rata share of Certificates, in the event that less than all of the Leased Property is condemned.

Section 6.2. Application of Net Proceeds. (a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund for application as set forth in Section 6.01 of the Trust Agreement.

(b) From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described in Section 6.1 hereof shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund for application as set forth in Section 6.02 of the Trust Agreement.

Section 6.3. Abatement of Rental in the Event of Damage or Destruction. The amount of Lease Payments shall be abated, during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Property (other than any portions of the Leased Property described in Section 5.2) or the Leased Property or any portion thereof. The amount of such abatement shall be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement shall continue in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage and destruction. However, notwithstanding any other provisions of this Section 6.3, there shall be no abatement of Lease Payments under this Section 6.3 to the extent that the proceeds of an eminent domain or insurance award are available to pay Lease Payments, or to the extent that moneys are

available in the Lease Payment Fund, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS

Section 7.1. Disclaimer of Warranties. The Corporation makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Leased Property, or any other representation or warranty with respect to the Leased Property. In no event shall the Corporation be liable for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease Agreement, the Property Lease or the Trust Agreement for the existence, furnishing, functioning or City's use of the Leased Property.

Section 7.2. Access to the Leased Property. The City agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Leased Property. The City further agrees that the Corporation, any Corporation Representative, and the Corporation's successors or assigns shall have such rights of access to the Leased Property as may be reasonably necessary to cause the proper maintenance of the Leased Property in the event of failure by the City to perform its obligations hereunder.

Section 7.3. Release and Indemnification Covenants. The City shall and hereby agrees to indemnify and save the Corporation and its officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City, (ii) any breach or default on the part of the City in the performance of any of its obligations under this Lease Agreement, (iii) any act or negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property, or (iv) any act or negligence of any lessee of the City with respect to the Leased Property. No indemnification is made under this Section or elsewhere in this Lease Agreement for willful misconduct, negligence, or breach of duty under this Lease Agreement by the Corporation, its officers, agents, employees, successors or assigns.

ARTICLE VIII

ASSIGNMENT, LEASING AND AMENDMENT

Section 8.1. Assignment by the Corporation. The Corporation's rights under this Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under this Lease Agreement have been assigned to the Trustee pursuant to the Assignment Agreement, to which assignment the City hereby consents.

Section 8.2. Assignment and Leasing by the City. This Lease Agreement may not be assigned by the City. The City may further lease any of the Leased Property or any portion thereof, but only with the written consent of the Corporation and subject to all of the following conditions:

(i) This Lease Agreement and the obligation of the City to make Lease Payments hereunder shall remain obligations of the City;

(ii) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such lease; and

(iii) No such lease by the City shall cause the Leased Property to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State.

Section 8.3. Amendment of Lease Agreement. (1) Except as provided in paragraph (2) below, without the prior written consent of the Trustee the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel this Lease Agreement, excepting only such alteration or modification as may be permitted by Article IX of the Trust Agreement.

(2) In addition, this Lease Agreement may be amended to obligate the City to pay additional amounts of rental hereunder for the use and occupancy of the Leased Property or any portion thereof, but only if (a) such additional amounts of rental do not cause the total rental payments made by the City under the Lease Agreement to exceed the fair rental value of the Leased Property, (b) the City shall have obtained and filed with the Trustee and the Corporation an appraisal of the Leased Property showing that the estimated fair market value thereof is not less than the aggregate unpaid principal components of such additional amount of rental plus the existing aggregate unpaid principal components of the Lease Payments, (c) such additional amounts of rental shall be pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the completion of public facilities and (d) the City shall send notification of the additional financing to the rating agency then rating the Certificates.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events of Default Defined. The following shall be "events of default" under this Lease Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this Lease Agreement, with respect to the Leased Property, any one or more of the following events:

(i) Failure by the City to pay any Lease Payment when due and payable hereunder, or failure to pay any other payment when due and payable hereunder.

(ii) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (i) or clause (ii) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee or the Owners of not less than twenty percent (20%) in aggregate principal amount of Certificates then outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(iii) The filing by the City of a voluntary petition in bankruptcy under Title 11 of the United States Code or any substitute or successor statute.

Section 9.2. Remedies on Default. Whenever any event of default referred to in Section 9.1 hereof shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to this Lease Agreement; provided, however, that notwithstanding anything herein or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the City is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Leased Property, and also, at its option, with or without such entry, may terminate this Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. In the event of such default and notwithstanding any re-entry by the Corporation, the City shall, as herein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of this Lease Agreement and the performance of all conditions herein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as herein provided, to wit:

(a) In the event the Corporation does not elect to terminate this Lease Agreement in the manner hereinafter provided for in subparagraph (b) hereof, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all

conditions herein contained and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Corporation does not re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the term of this Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Corporation. The City hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property in the event of default by the City in the performance of any covenants herein contained to be performed by the City and to remove all personal property whatsoever situated upon the Leased Property to place such property in storage or other suitable place in the City of Palo Alto, for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions herein contained. The City hereby waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Leased Property as herein provided and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Property. The City agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of this Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and hereby conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Leased Property.

(b) In an event of default hereunder, the Corporation may terminate this Lease Agreement and re-lease all or any portion of the Leased Property. In the event of the termination of this Lease Agreement by the Corporation in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Corporation in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be the absolute property of the Corporation and the City shall have no right thereto, nor shall the City be entitled to any credit in the event of a deficiency in the rentals received by the Corporation from the

Leased Property. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate this Lease Agreement. The City covenants and agrees that no surrender of the Leased Property or of the remainder of the term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

Section 9.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in this Article IX it shall not be necessary to give any notice, other than such notice as may be required in this Article IX or by law.

Section 9.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Lease Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

Section 9.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6. Application of Proceeds. All net proceeds received from the re-lease or other disposition of the Leased Property under this Article IX, and all other amounts derived by the Corporation or the Trustee as a result of an event of default hereunder, shall be transferred to the Trustee promptly upon receipt thereof, after payment of the fees and expenses of the Trustee, including those of its attorneys, agents and advisors and shall be deposited by the Trustee in the Lease Payment Fund, to be applied to the Lease Payments in order of payment date.

Section 9.7. Trustee and Certificate Owners to Exercise Rights. Such rights and remedies as are given to the Corporation under this Article IX have been assigned by the Corporation to the Trustee under the Trust Agreement, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement.

ARTICLE X

PREPAYMENT OF LEASE PAYMENTS

Section 10.1. Security Deposit. Notwithstanding any other provision of this Lease Agreement, the City may on any date secure the payment of Lease Payments by a deposit with the Trustee of: (i) an amount of cash which, together with amounts on deposit in the Lease Payment Fund and the Insurance and Condemnation Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment Schedule set forth in Exhibit A, or (ii) Federal Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Lease Payment Fund and the Insurance and Condemnation Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates or on any purchase option date as set forth in Section 10.2, as the City shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section, all obligations of the City under this Lease Agreement, and all security provided by this Lease Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments from such security deposit, and title to the Leased Property shall be affected thereby as described in Section 4.5. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of this Lease Agreement.

Section 10.2. Prepayment; Purchase Option. The City may exercise its option to prepay the principal component of the Lease Payments, in whole or in part, on any date on or after [] [], 20[], by paying a prepayment price equal to the aggregate or a portion of the unpaid principal components of the remaining Lease Payments, together with the interest component of the Lease Payment required to be paid on such date, and premium due, if any. The City shall notify the Corporation and the Trustee as to which of the Lease Payments it wishes to prepay. Such prepayment price shall be deposited by the Trustee in the Lease Payment Fund to be applied to the prepayment of the Certificates pursuant to Section 4.01 of the Trust Agreement. The City shall give the Trustee notice of its intention to exercise its option not less than forty-five (45) days in advance of the date of exercise. In the event the Lease Payments have been fully paid, and the City prepays the entire unpaid principal component of the Lease Payments in whole, the City will be deemed to have purchased the Leased Property and title to the Leased Property shall thereupon vest in the City, free and clear of any encumbrance created by this Agreement.

Section 10.3. Mandatory Prepayment. The City shall be obligated to prepay the Lease Payments for the Leased Property, in whole or in part on any date, from and to the extent of any Net Proceeds of insurance award or condemnation award with respect to the Leased Property that have theretofore been deposited with the Trustee in the Lease Payment Fund for such purpose pursuant to Article VI hereof. Such proceeds shall be applied to the prepayment of the

principal component of the Lease Payments and the prepayment of the Certificates in accordance with Article VI of the Trust Agreement.

Section 10.4. Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Lease Payments in full under this Article X, such that the Trust Agreement shall be discharged by its terms as a result of such prepayment, all amounts then on deposit in the Lease Payment Fund shall be credited towards the amounts then required to be so prepaid.

ARTICLE XI

MISCELLANEOUS

Section 11.1. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received 48 hours after deposit in the United States mail in registered or certified form with postage fully prepaid:

If to the City:	City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Corporation:	Palo Alto Public Improvement Corporation c/o City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Trustee:	U.S. Bank National Association Attn: Global Corporate Trust Services One California Street, Suite 1000 San Francisco, CA 94111 Fax: 415-677-3768

The Corporation and the City, by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

Section 11.2. Binding Effect. This Lease Agreement shall inure to the benefit of and shall be binding upon the Corporation and the City and their respective successors and assigns.

Section 11.3. Severability. In the event any provision of this Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.4. Net-net-net Lease. This Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Section 11.5. Further Assurances and Corrective Instruments. The Corporation and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease Agreement.

Section 11.6. Execution in Counterparts. This Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.7. Applicable Law. This Lease Agreement shall be governed by and construed in accordance with the laws of the State.

Section 11.8. Corporation and City Representatives. Whenever under the provisions of this Lease Agreement the approval of the Corporation or the City is required, or the Corporation or the City is required to take some action at the request of the other, such approval or such request shall be given for the Corporation by a Corporate Representative and for the City by a City Representative, and any party hereto shall be authorized to rely upon any such approval or request.

Section 11.9. Captions. The captions or headings in this Lease Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease Agreement.

IN WITNESS WHEREOF, the Corporation has caused this Lease Agreement to be executed in its corporate name by its duly authorized officers; and the City has caused this Lease Agreement to be executed in its name by its duly authorized officers and sealed with its corporate seal, as of the date first above written.

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION,
as Lessor

[Patrick Burt]
President

Attest:

[Beth Minor]
Secretary

CITY OF PALO ALTO,
as Lessee

Lalo Perez
Director of Administrative Services

(S E A L)

Attest:

Beth Minor
City Clerk

EXHIBIT A

SCHEDULE OF TAXABLE LEASE PAYMENTS

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL TAXABLE LEASE PAYMENT</u>
[]		\$(]	\$(]
[]	\$(]	[]	[]
[]		[]	[]
[]	[]	[]	[]
[]		[]	[]

EXHIBIT B

DESCRIPTION OF LEASED PROPERTY

[Fire Station 1]

TRUST AGREEMENT

Dated as of [] 1, 2018

by and among

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee,**

PALO ALTO PUBLIC IMPROVEMENT CORPORATION

and the

CITY OF PALO ALTO

Relating to

**\$[] City of Palo Alto 2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds)**

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TRUST AGREEMENT

THIS TRUST AGREEMENT is dated as of [] 1, 2018, by and among U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America (the "Trustee"), the PALO ALTO PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation duly formed, organized operating and acting pursuant to the laws of the State of California (the "Corporation"), and the CITY OF PALO ALTO, a chartered municipal corporation duly organized and existing under the Constitution and laws of the State of California (the "City").

RECITALS

WHEREAS, the Corporation has heretofore leased the Palo Alto Civic Center to the City pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City now wishes to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road (the "Golf Course Improvements");

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "Certificates");

WHEREAS, in connection with the refinancing of the 2002 Lease, the 2002 Lease has been duly terminated pursuant to a Termination Agreement, dated as of [] [], 2018, between the City and the Corporation, and acknowledged by the 2002 Trustee;

WHEREAS, the City has concurrently leased certain real property, as more particularly described in Exhibit B of the Lease Agreement (defined below) (the "Leased Property") to the Corporation under a Property Lease, dated as of [] 1, 2018, by and between the City, as Lessor, and the Corporation, as Lessee (the "Property Lease"), and the Corporation has leased the Leased Property back to the City under a Lease Agreement, dated as of [] 1, 2018, by and between the City, as lessee and the Corporation, as lessor (the "Lease Agreement"), in consideration of the payment by the City of semi-annual lease payments; and

WHEREAS, the Corporation has assigned its right to receive such lease payments to U.S. Bank National Association, as trustee, pursuant to an Assignment Agreement (the "Assignment Agreement"), dated as of [] 1, 2018, by and between the Corporation and the Trustee, and in consideration of such assignment the Trustee will execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments, in accordance with this Trust Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Trust Agreement, have the meanings herein specified. In addition, any terms defined in the Lease Agreement and not otherwise defined herein shall have the respective meanings given such terms in the Lease Agreement.

"Assignment Agreement" means the Assignment Agreement, dated as of [] 1, 2018, by and between the Corporation and the Trustee, together with any duly authorized and executed amendments thereto.

"Bond Counsel" means any attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is exempt from federal income taxation pursuant to Section 103 of the Code.

"Business Day" means a day of the week on which the Trustee is not required or authorized to remain closed and on which the New York Stock Exchange is open.

"Certificates" means the \$[] aggregate principal amount of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds), to be executed and delivered pursuant hereto.

"City" means the City of Palo Alto, a chartered municipal corporation duly organized and existing under the Constitution and the laws of the State.

"City Representative" means the City Manager, the Assistant City Manager or the Director of Administrative Services of the City or any other person authorized by resolution of the City Council to act on behalf of the City under or with respect to this Trust Agreement and the Lease Agreement.

"Closing Date" means the date upon which there is an exchange of the Certificates for the proceeds representing the purchase of the Certificates by the Original Purchaser.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of delivery of the Lease Agreement or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of delivery of the Lease Agreement, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Corporation Representative" means the President or Vice President of the Corporation, or any other person authorized by resolution of the Corporation to act on behalf of the Corporation under or with respect to this Trust Agreement and the Lease Agreement.

"Corporation" means the Palo Alto Public Improvement Corporation, a nonprofit public benefit corporation duly formed, organized, operating and existing under the laws of the State, and its successors and assigns.

"Corporate Trust Office" means the corporate trust office of the Trustee in San Francisco, California, or such other or additional offices as the Trustee may designate in writing to the Corporation from time to time as the corporate trust office for purposes of this Trust Agreement, except that with respect to presentation of Certificates for payment or for registration of transfer and exchange thereof, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution, sale and delivery of the Certificates, including but not limited to settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee, financing discounts, legal fees and charges, bond insurance or title, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.02 hereof.

"Counsel" means any attorney at law or law firm (who or which may be counsel for the City, the Trustee or the Corporation).

"Escrow Fund" means the Escrow Fund created under Section 3.04.

"Event of Default" means an event of default under the Lease Agreement, as defined in Section 9.1 thereof.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

"Fiscal Year" means each twelve-month period beginning on July 1 of any year and ending on June 30 of the succeeding year, or any other twelve-month period hereafter adopted by the City as its official fiscal year period.

"Golf Course Construction Costs" means all costs of payment of, or reimbursement for, [design, construction, installation and equipping of the Golf Course Project, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums and permit fees, and includes Costs of Issuance not paid out of the Costs of Issuance Fund.]

"Golf Course Construction Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.03 hereof.

"Golf Course Project" means those certain improvements to be made to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the City.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to Section 6.01.

"Investment Securities" means any of the following which at the time of investment are legal investments under the laws of the State of California for trust funds held by the Trustee (the Trustee is entitled to rely upon any investment direction of the City as a certification that such investment constitutes an Investment Security):

1. Direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to payments of principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly

and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated. The obligations described in this paragraph are hereinafter called "United States Obligations".

2. Obligations issued or guaranteed by the following instrumentalities or agencies:

- (a) Federal Home Loan Banks;
- (b) Government National Mortgage Association;
- (c) Farmers Home Administration;
- (d) Federal Home Loan Mortgage Corporation;
- (e) Federal Housing Administration; and
- (f) Federal National Mortgage Association.

3. Direct and general long-term obligations of any state or commonwealth of the United States, to the payment of which the full faith and credit of the state or commonwealth is pledged and that are rated "Aaa" by Moody's and "AAA" by S&P.

4. Direct and general short-term obligations of any state or commonwealth, to the payment of which the full faith and credit of the state or commonwealth is pledged and that are rated in the highest rating category by Moody's and S&P.

5. Interest-bearing demand or time deposits issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (FDIC). These deposits must be continuously and fully insured by FDIC and be with banks whose debt is rated at least P-1 or Aa by Moody's and at least A-1+ or AA by S&P.

6. Repurchase agreements, the maturities of which are 30 days or less, or are due on demand, entered into with financial institutions such as banks or trust companies organized under state law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation or with a dealer or parent holding company, in each such case the debt of which is rated at least "A" or "P-1" by Moody's and S&P. Such repurchase agreements shall be in respect of United States Obligations and (except repurchase agreements with institutions whose debt or commercial paper is rated "Aaa" or "P-1" by Moody's and S&P) shall be collateralized by United States Obligations, and the provisions of the repurchase agreement shall meet the following additional criteria:

- (i) the Trustee (who shall not be the provider of the collateral) or a third party acting solely as agent for the Trustee has possession of the United States Obligations;

(ii) failure to maintain the requisite collateral levels will require the Trustee to liquidate the United States Obligations immediately;

(iii) the Trustee has a perfected, first priority security interest in the United States Obligations; and

(iv) the United States Obligations are free and clear of third-party liens, and in the case of an SIPC broker, were not acquired pursuant to a repurchase or reverse repurchase agreement.

7. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's and meeting the following conditions:

(a) the municipal obligations are (i) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (ii) the issuer has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Obligations that may be applied only to interest, principal, and premium payments of such municipal obligations;

(c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities on the municipal obligations;

(d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

(e) the United States Obligations (plus any cash in the escrow fund) are not available to satisfy any other claims, including those against the trustee or escrow agent.

8. Prime commercial paper of a United States corporation, finance company or banking institution if such commercial paper is rated at least "P1" by Moody's and at least "A-1+" by S&P and if such commercial paper is stated to mature in not more than 270 days.

9. Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940) or shares in a regulated investment company (as defined in Section 851 (a) of the Internal Revenue Code of 1986, as amended) that is a money market fund that has been rated in the highest rating category by S&P.

10. The Local Agency Investment Fund maintained by the Treasurer of the State ("LAIF") to the extent deposits and withdrawals may be made by the Trustee in its own name.

11. Banker's acceptances drawn on and accepted by commercial banks (including the Trustee and any affiliate of the Trustee) having a combined unencumbered capital, surplus and retained earnings of not less than \$30,000,000 and whose notes or commercial paper are rated in the highest rating category by Moody's (if the Certificates are then rated by Moody's) and S&P (if the Certificates are then rated by S&P).

12. Money market funds restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, including such funds for which the Trustee or an affiliate acts as investment advisor or provides other services, which are rated in the highest rating category by S&P.

13. Investment Agreements which are approved in writing by Moody's and S&P.

14. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended; i.e., the California Arbitrage Management Program (CAMP).

"Lease Agreement" means the Lease Agreement dated as of [] 1, 2018, by and between the Corporation as lessor and the City as lessee, together with any further duly authorized and executed amendments thereto.

"Lease Default Event" means any of the events specified in Section 9.1 of the Lease Agreement.

"Lease Payments" means all payments required to be paid by the City pursuant to Section 4.3 of the Lease Agreement, including any prepayment thereof pursuant to Article X of the Lease Agreement.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to Section 5.02.

"Lease Term" means the period during which the Lease is in effect as specified in the Lease Agreement.

"Moody's" means Moody's Investors Service, of New York, New York, or its successors.

"Net Proceeds" means any insurance proceeds or condemnation award in excess of \$[50,000], paid with respect to the Leased Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Original Purchaser" means [].

"Outstanding", when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 9.03) all Certificates theretofore, or thereupon being, executed and delivered by the Trustee under this Trust Agreement except (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates with respect to which all liability of the City shall have been discharged in accordance with Section 13.02, including Certificates (or portions of Certificates) referred to in Section 13.04; and (3) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to this Trust Agreement.

"Owner" or "Certificate Owner", when used with respect to a Certificate means the person in whose name the ownership of such Certificate shall be registered.

"Payment Date" means (i) with respect to the interest component of the Lease Payments payable to the Owners of the Certificates, [May 1, 2018], and the first day of each May and November thereafter so long as any Certificates are Outstanding hereunder, and (ii) with respect to the principal of the Certificates, May 1, 20[] and each May thereafter so long as the Certificates are Outstanding, terminating May 1, 20[].

"Principal Amount" means the total unpaid principal component of the Lease Payments due under Section 4.3 of the Lease Agreement.

"Rating Category" means any generic rating category of Moody's or S&P, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

"Record Date" means the close of business on the fifteenth day of the month preceding each Payment Date, whether or not such fifteenth day is a Business Day.

"Registration Books" means the records maintained by the Trustee pursuant to Section 2.11 for registration and transfer of ownership of the Certificates.

"Regulations" means temporary and permanent regulations promulgated under the Code.

"S&P" means Standard & Poor's Corporation, of New York, New York, or its successors.

"State" means the State of California.

"Capitalized Interest Account" means the account by that name established pursuant to Section 5.02.

"Term of the Lease Agreement" means the time during which the Lease Agreement is in effect, as provided in Section 4.2 of the Lease Agreement.

"Trust Agreement" or "Agreement" means this Trust Agreement, together with any amendments or supplements hereto permitted to be made hereunder.

"Trustee" means U.S. Bank National Association, a national banking association organized under the laws of the United States of America or any successor thereto acting as Trustee pursuant to this Trust Agreement.

"Written Request of the Corporation" means an instrument in writing signed by the Corporation Representative.

"Written Request of the City" means an instrument in writing signed by the City Representative.

Section 1.02. Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Agreement, and has taken all actions necessary to authorize the execution of this Agreement by the officers and persons signing it.

ARTICLE II

THE CERTIFICATES OF PARTICIPATION

Section 2.01. Authorization. The Trustee is hereby authorized and directed to register, execute and deliver to the Original Purchaser the City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) in an aggregate principal amount of [] Dollars (\$[]) evidencing undivided fractional interests in the Lease Payments.

Section 2.02. Date. Each Certificate shall be dated as of the date of its execution (except that each Certificate delivered to the Original Purchaser shall be dated the Closing Date), and interest with respect thereto shall be payable from the Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of a Payment Date, in which event interest represented thereby shall be payable from such Payment Date; or (ii) it is executed after a Record Date and before the following Payment Date, in which event interest represented thereby shall be payable from such Payment Date; or (iii) it is executed on or before the Record Date immediately preceding the first Payment Date, in which event interest represented thereby shall be payable from the Closing Date; provided, however, that if, as of the date of any Certificate, interest represented by such Certificate is in default, interest represented by such Certificate shall be payable from the Payment Date to which interest represented thereby has previously been paid or made available for payment.

Section 2.03. Maturities; Interest Rates. The Certificates shall mature on May 1, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
20[]	\$[]	[]%
20[]	[]	[]
20[]	[]	[]
20[]	[]	[]
20[]	[]	[]
20[]	[]	[]
20[]	[]	[]

Section 2.04. Form of Certificates; Interest. The Certificates shall be delivered in the form of fully registered Certificates without coupons in the denomination of \$5,000 or any integral multiple thereof, except that no Certificate may have principal maturing in more than one year. The Certificates shall be assigned such alphabetical and numerical designation as shall be designated by the Trustee.

Interest represented by the Certificates shall be payable on each Payment Date to and including the date of maturity or prepayment, whichever is earlier, as provided in Section 2.09. Said interest shall represent the portion of Lease Payments designated as interest and coming

due during the Rental Period (as defined in the Lease Agreement) preceding each Payment Date. The proportionate share of the portion of Lease Payments designated as interest represented by any Certificate shall be computed by multiplying the portion of Lease Payments designated as principal represented by such Certificate by the rate of interest applicable to such Certificate (on the basis of a 360-day year of twelve 30-day months).

Section 2.05. Form. The Certificates shall be substantially in the form set forth in Exhibit A attached hereto and by this reference incorporated herein.

Section 2.06. Execution. The Certificates shall be executed by and in the name of the Trustee by the manual signature of an authorized officer of the Trustee. If any officer whose signature appears on any Certificate ceases to be such officer before the date of delivery of such Certificate, such signature shall nevertheless be as effective as if the officer had remained in office until such date. Any Certificate may be executed on behalf of the Trustee by such person as at the actual date of the execution of such Certificate shall be the proper officer of the Trustee.

Section 2.07. Transfer and Exchange. (a) Transfer of Certificates. The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity and aggregate principal amount of the same series, in any authorized denominations.

(b) Exchange of Certificates. Certificates may be exchanged at the Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity and the same series. The City shall pay any costs of the Trustee incurred in connection with such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Section 2.08. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, shall execute and deliver a new Certificate of like tenor and maturity in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled by it and redelivered to, or upon the order of, the City. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and, if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor and maturity and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Certificate delivered under this Section 2.08 and of the expenses which may be incurred by the Trustee in carrying out the duties under this Section 2.08. Any Certificate executed and delivered under the provisions of this Section 2.08 in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately

entitled to the benefits of this Agreement with all other Certificates secured by this Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section 2.08, in lieu of delivering a new Certificate in exchange for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Certificate upon receipt of indemnity satisfactory to the Trustee.

Section 2.09. Payment. Payment of interest due with respect to any Certificate on any Payment Date shall be made to the person appearing on the Registration Books as the Owner thereof as of the Record Date immediately preceding such Payment Date, such interest to be paid by check mailed to such Owner at his address as it appears on the Registration Books or at such other address as he may have filed with the Trustee for that purpose. The principal, interest and prepayment price represented by the Certificates at maturity or upon prior prepayment shall be payable in lawful money of the United States of America upon surrender at the Corporate Trust Office of the Trustee.

Section 2.10. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of Certificates shall be sufficient for any purpose of this Agreement (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which shall be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged before him the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

(b) The fact of the ownership of Certificates by any person and the amount, the maturity and the numbers of such Certificates and the date of his holding the same shall be proved by the Registration Books.

Nothing contained in this Article II shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which the Trustee may deem sufficient. Any request or consent of the Owner of any

Certificate shall bind every future Owner of the same Certificate in respect of anything done or suffered to be done by the Trustee in pursuance of such request or consent.

Section 2.11. Registration Books. The Trustee shall keep or cause to be kept, at its Corporate Trust Office, sufficient records for the registration and registration of transfer of the Certificates, which shall at all times be open to inspection by the City and the Corporation; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as hereinbefore provided.

Section 2.12. Use of Depository. Notwithstanding any provision of this Trust Agreement to the contrary:

(a) Pursuant to the Certificate Purchase Agreement, at the request of the Original Purchaser named therein, the Certificates shall be initially executed and registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, the depository designated by the Original Purchaser, and shall be evidenced by one Certificate maturing on each of the maturity dates set forth in Section 2.03 of this Trust Agreement to be in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such Certificates, or any portions thereof, may not thereafter be transferred except:

(1) to any successor of The Depository Trust Company or its nominee, or of any substitute depository designated pursuant to clause (2) of this subsection (a) ('substitute depository'); provided that any successor of The Depository Trust Company or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) to any substitute depository not objected to by the City or the Trustee, upon (i) the resignation of The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the City that The Depository Trust Company or its successor is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) to any person as provided below, upon (i) the resignation of The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the City that The Depository Trust Company or its successor is no longer able to carry out its functions as depository; provided that no substitute depository which is not objected to by the City and the Trustee can be obtained.

(b) In the case of any transfer pursuant to clause (1) or clause (2) of Section 2.12(a) hereof, upon receipt of all outstanding Certificates by the Trustee, together with a Written Request of the City to the Trustee, a single new Certificate shall be executed and delivered for each maturity of such Certificate then outstanding, registered in the name

of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Written Request of the City. In the case of any transfer pursuant to clause (3) of Section 2.12(a) hereof, upon receipt of all outstanding Certificates by the Trustee together with a Written Request of the City, new Certificates shall be executed and delivered in such denominations and registered in the names of such persons as are requested in a Written Request of the City provided the Trustee shall not be required to deliver such new Certificates within a period less than 60 days from the date of receipt of such a Written Request of the City.

(c) In the case of partial prepayment or an advance refunding of any Certificates evidencing all of the principal maturing in a particular year, The Depository Trust Company shall deliver the Certificates to the Trustee for cancellation and re-registration to reflect the amounts of such reduction in principal.

(d) The City and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the absolute Owner thereof for all purposes of this Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying or otherwise dealing with any beneficial owners of the Certificates. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or substitute depository or its successor), except for the registered owner of any Certificate.

(e) So long as all outstanding Certificates are registered in the name of Cede & Co. or its registered assign, the City and the Trustee shall reasonably cooperate with Cede & Co., as sole registered Owner, or its registered assign in effecting payment of the principal of and prepayment premium, if any, and interest on the Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

(f) So long as all outstanding Certificates are registered in the name of Cede & Co. or its registered assign (hereinafter, for purposes of this subsection (f), the "Owner"):

(1) All notices and payments addressed to the Owners shall contain the Certificates' CUSIP number.

(2) Notices to the Owner shall be forwarded by hand delivery (with receipt) or overnight courier to:

U.S. Bank National Association
Attn: Global Corporate Trust Services
One California Street, Suite 1000
San Francisco, CA 94111
Fax: 415-677-3768

(3) Payments of interest with respect to the Certificates shall be made payable to the order of "Cede & Co." and shall be delivered to the order of the Owner, in same day funds on each applicable May 1 and November 1. Such payments shall be addressed to the Corporate Trust Office of the Trustee.

(4) Payments of the principal on the Certificates shall be received by the Owner, in same day funds on each applicable May 1. Payments of the principal shall be made payable to Cede & Co., and shall be addressed to the Corporate Trust Office of the Trustee.

(5) The Owner may request payments of interest or principal to be made other than as described in Section 2.12(f)(3) and Section 2.12(f)(4) above as requested by such Owner, and the Trustee and the City shall reasonably cooperate with respect to the provision for such payment to the extent otherwise permitted under this Trust Agreement.

(6) The Owner may direct the Trustee in writing to use any other address or department as the address or department to which payments of the interest or principal or notices may be sent.

(7) The Owner shall in writing provide the Trustee with examples of signatures of those authorized to act on its behalf, which shall be subject to change and the Trustee shall accept direction in writing from such persons or their designated successors on behalf of the registered Certificate.

(g) Reference is hereby made to the Letter of Representations directed to the Depository Trust Company and executed by the City, providing for certain actions by the City and the Trustee under specified circumstances; in the event of conflict between the provisions of this Trust Agreement and said Letter of Representations, the latter shall control.

ARTICLE III

DISPOSITION OF PROCEEDS; COSTS OF ISSUANCE FUND AND CONSTRUCTION FUNDS

Section 3.01. Application of Proceeds. The proceeds received by the Trustee from the sale of the Certificates shall forthwith be set aside by the Trustee in the following respective funds:

(a) The Trustee shall deposit an amount equal to \$[] in the Costs of Issuance Fund;

(b) The Trustee shall deposit an amount equal to \$[] in the Escrow Fund;

(c) The Trustee shall deposit an amount equal to \$[] in the Capitalized Interest Account; and

(d) The Trustee shall deposit an amount equal to \$[] in the Golf Course Construction Fund.

Section 3.02. Costs of Issuance Fund. The Trustee shall establish a special fund designated as the "Costs of Issuance Fund"; shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as provided herein. There shall be deposited in the Costs of Issuance Fund the proceeds of the Certificates deposited therein pursuant to Sections 3.01(a), and any other funds from time to time deposited by the Trustee for such purpose. The moneys in the Costs of Issuance Fund shall be disbursed to pay the Costs of Issuance from time to time upon the receipt of Written Requests of the City setting forth the amounts to be disbursed for payment or reimbursement of Costs of Issuance and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for Costs of Issuance properly chargeable to the Costs of Issuance Fund. Any amounts remaining in the Costs of Issuance Fund on the date one hundred and twenty (120) days after the Closing Date shall be withdrawn therefrom by the Trustee and transferred to the Lease Payment Fund.

Section 3.03. Golf Course Construction Fund. The Trustee shall establish and maintain a fund to be known as the "Golf Course Construction Fund". The Trustee shall disburse moneys in the Golf Course Construction Fund from time to time, for the purpose of paying the Golf Course Construction Costs. Each such disbursement shall be documented by a requisition which shall: (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such detail as may be available to the City; and (b) state with respect to such disbursement (i) the requisition number, in sequential order, (ii) the amount to be disbursed for payment of such costs, and (iii) that each item of cost identified therein has been properly incurred, constitutes payment of a Golf Course Construction Cost and has not been the basis of any previous disbursement. Upon completion of the Golf Course Project and following payment of all Golf Course Construction Costs, the Golf Course Construction Fund shall be closed and transferred to the Tax-Exempt Lease Payment Account within the Lease Payment Fund.

Section 3.04. Establishment of Escrow Fund. (A) There is hereby created by the Trustee, as security for the payment of the redemption price of the 2002B Certificates on [] [], 2018, an irrevocable escrow to be held in escrow by the Trustee on behalf of the City and for the benefit of the owners of the 2002B Certificates, said escrow to be designated the "City of Palo Alto 2002 Refunding Escrow Fund" (the "Escrow Fund"). All moneys in the Escrow Fund are hereby irrevocably transferred to the Trustee, as security for payment of the debt service on the 2002B Certificates, to be held by the Trustee in escrow for the benefit of the owners of the 2002B Certificates.

(B) Concurrently with delivery of the Certificates, the City shall cause to be transferred to the Trustee for deposit into the Escrow Fund the amount of \$[] in immediately available funds, derived from the proceeds of sale of the Certificates in the amount of \$[].

(C) Immediately following the deposit of \$[] into the Escrow Fund pursuant to the preceding paragraph, the City hereby irrevocably instructs the Trustee to transfer the amount of \$[] to the 2002 Trustee for deposit into the Taxable Lease Payment Account established in Section 5.02 of the 2002 Trust Agreement to pay the redemption price of the 2002B Certificates on [] [], 2018 in accordance with Section 4.01(A)(2) of the 2002 Trust Agreement. For such purpose of call and redemption prior to maturity, the City hereby instructs the Trustee, as Prior Trustee, and the Trustee, as Prior Trustee, hereby agrees to give notice of redemption of the 2002B Certificates, such notice of redemption to be given timely for redemption of the 2002B Certificates on [] [], 2018, in accordance with the applicable provisions of the 2002 Trust Agreement.

ARTICLE IV **PREPAYMENT OF CERTIFICATES**

Section 4.01. Prepayment. (A) Prepayment of the Certificates.

(1) Optional Prepayment of the Certificates. The Certificates maturing on or before May 1, 20[] are not subject to optional prepayment prior to their respective stated maturities. The Certificates maturing on or after May 1, 20[], are subject to prepayment prior to their respective stated maturities, at the option of the City, in whole, or in part among maturities on such basis as designated by the City and by lot within any one maturity, on any date on or after May 1, 20[] from prepayments of the Lease Payments made pursuant to Section 10.2 of the Lease Agreement, at the prepayment price (expressed as percentages of the principal amount of the Certificates or portions thereof to be prepaid) set forth in the following table, together with accrued interest to the date fixed for prepayment:

<u>Prepayment Prepayment Dates</u>	<u>Price</u>
On or after May 1, 20[] to and including April 30, 20[]	[]%
On or after May 1, 20[] to and including April 30, 20[]	[]
On or after May 1, 20[] and thereafter	[]

(2) Mandatory Sinking Fund Prepayments of the Certificates. The Certificates maturing on May 1 in each of the years [20[], 20[] and 20[]] are subject to mandatory sinking fund prepayment prior to their respective stated maturities, in the amounts and years set forth below, at the prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment.

Certificates Maturing May 1, 20[]

<u>Sinking Fund Prepayment Date (May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

Certificates Maturing May 1, 20[]

Sinking Fund	
Prepayment Date	
<u>(May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

Certificates Maturing May 1, 20[]

Sinking Fund	
Prepayment Date	
<u>(May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

(B) Prepayment From Net Proceeds of Insurance and Condemnation. The Certificates are also subject to prepayment on any date, in whole or in part, from the Net Proceeds of insurance or condemnation with respect to the Leased Property, which Net Proceeds are deposited in the Lease Payment Fund and credited towards the prepayment of the Lease Payments made by the City pursuant to Section 10.3 of the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Section 4.02. Selection of Certificates for Prepayment. Whenever provision is made in this Agreement for the prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment from the Outstanding Certificates not previously called for prepayment, among maturities in integral multiples of \$5,000 and by lot within a maturity in any manner deemed appropriate by the Trustee. For the purposes of such selection, Certificates shall be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee shall promptly notify the City and the Corporation in writing of the Certificates so selected for prepayment.

Section 4.03. Notice of Prepayment. When prepayment is authorized or required pursuant to Section 4.01, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) that the Certificates or a designated portion thereof are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, and (d) that the City has the right to issue a conditional redemption notice to the effect that the redemption is conditioned upon receipt of sufficient funds to accomplish the redemption and to rescind the notice as provided below. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest represented thereby shall cease to accrue and be payable.

Notice of such prepayment shall be mailed by first class mail to the respective Owners of Certificates designated for prepayment at their addresses appearing on the Registration Books, at least thirty (30) days but not more than forty-five (45) days prior to the prepayment date, which notice shall, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal thereof which is to be prepaid; provided that neither failure to receive such notice so mailed nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

The City has the right to rescind any notice of the optional prepayment of Certificates under Section 4.01(A)(1) by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of optional prepayment shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall mail notice of such rescission of prepayment to the respective Owners of the Certificates designated for prepayment at their respective addresses appearing on the Registration Books, and to the Depository Trust Company and the Municipal Securities Rulemaking Board.

Section 4.04. Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

Section 4.05. Effect of Notice of Prepayment. Notice having been given as aforesaid, and moneys for the prepayment (including the interest to the applicable date of prepayment and including any applicable premium), having been set aside in the Lease Payment Fund, the Certificates shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Corporate Trust Office of the Trustee, said Certificates shall be paid at the unpaid principal amount (or applicable portion thereof) with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest represented by said Certificates shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of this Article IV shall be cancelled upon surrender thereof and destroyed.

ARTICLE V

LEASE PAYMENTS; LEASE PAYMENT FUND

Section 5.01. Assignment of Rights in Lease Agreement. The Corporation has in the Assignment Agreement transferred, assigned and set over to the Trustee certain of its rights in the Lease Agreement, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement or pursuant hereto. All Lease Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Lease Payments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Section 5.02. Establishment of Lease Payment Fund. The Trustee shall establish a special fund designated as the "Lease Payment Fund", and within said Fund, the "Capitalized Interest Account". All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in this Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

Section 5.03. Deposits.

(A) There shall be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys required to be deposited therein pursuant to the Lease Agreement or pursuant to this Agreement, and including any other moneys required to be credited towards payment of the Lease Payments.

(B) The Trustee shall deposit in the Capitalized Interest Account the amount described in Section 3.01(c). Moneys in the Capitalized Interest Account shall be invested in Investment Securities and shall be withdrawn and used, together with investment earnings thereon, to pay interest on the Certificates. At such time as no moneys remain in the Capitalized Interest Account, the Trustee shall close the Capitalized Interest Account without any further direction from the City or the Corporation.

Section 5.04. Application of Moneys. All amounts in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal, interest and prepayment premiums (if any) with respect to the Certificates as the same shall become due and payable, in accordance with the provisions of Article II and Article IV.

Section 5.05. Surplus. Any surplus remaining in the Lease Payment Fund, after prepayment and payment of all Certificates, including premiums and accrued interest (if any) and payment of any applicable fees to the Trustee or provision for such prepayment or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the City.

ARTICLE VI

INSURANCE AND CONDEMNATION FUND INSURANCE; EMINENT DOMAIN

Section 6.01. Establishment of Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award. The provisions of this Section are subject to Section 4.02 of the Property Lease. Any Net Proceeds of insurance against accident to or destruction of any structure constituting any part of the Leased Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City pursuant to Section 6.2(a) of the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund to be established and held by the Trustee, designated as the "Insurance and Condemnation Fund". If the City determines and notifies the Trustee in writing of its determination, within ninety (90) days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interest of the City, then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund, and applied to the prepayment of Lease Payments pursuant to Section 4.01(B); provided, that such transfer shall only be made if the amount transferred is sufficient to prepay the principal amount of Certificates attributable to the portion of the Leased Property damaged or destroyed, determined on the basis of the ratio resulting from dividing the cost of the portion of the Leased Property so damaged or destroyed by the total cost of the Leased Property. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of Written Requests of the City stating with respect to each payment to be made (i) the name and address of the person, firm or corporation to whom payment is due, (ii) the amount to be paid and (iii) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. Any balance of the Net Proceeds remaining after such work has been completed (as evidenced by a Certificate of the City to the Trustee) shall be paid to the City. The preceding sentence notwithstanding, before the remaining Net Proceeds are paid to the City by the Trustee, the City shall deliver to the Trustee a certificate stating that the Leased Property has been replaced, repaired, restored, modified or improved with the Net Proceeds to the extent that the City has full use, occupancy and enjoyment of the Leased Property.

Section 6.02. Application of Net Proceeds of Eminent Domain Award. The provisions of this Section are subject to Section 4.02 of the Property Lease. If all or any part of the Leased Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to Section 6.2(b) of the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

- (a) If all of the Leased Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, or

if the City has given written notice to the Trustee of its determination that such proceeds are not needed for repair or rehabilitation of the Leased Property, the Trustee shall transfer such proceeds the Lease Payment Fund to be credited towards the prepayments of the Lease Payments required to be paid pursuant to Section 6.2(b) of the Lease Agreement and applied to the prepayment of Certificates in the manner provided in Section 4.01(B).

(b) If less than all of the Leased Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City has given written notice to the Trustee of its determination that such proceeds are needed for repair, rehabilitation or replacement of the Leased Property, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing of Written Requests of the City in the form and containing the provisions set forth in Section 6.01.

Section 6.03. Cooperation. The Corporation and the Trustee shall cooperate fully with the City at the expense of the City in filing any proof of loss with respect to any insurance policy maintained pursuant to Article V of the Lease Agreement and, to the extent indemnified to its satisfaction from any liability or expense related thereto, in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Leased Property or any portion thereof.

ARTICLE VII

MONEYS IN FUNDS

Section 7.01. Held in Trust. The moneys and investments held by the Trustee under this Trust Agreement are irrevocably held in trust for the Certificates, and for the purposes herein specified, and such moneys shall be expended only as provided in this Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of (i) the City, (ii) the Trustee, (iii) the Corporation or (iv) the Owner of Certificates.

Section 7.02. Investments Authorized. All moneys in any of the funds established pursuant to this Trust Agreement shall be invested by the Trustee, upon Written Request of the City, solely in Investment Securities. In the absence of any Written Request of the City directing investments, the Trustee shall invest in Investment Securities described in (12) of the definition thereof.

Investment Securities shall be purchased at Fair Market Value, provided the Trustee shall not be responsible to determine Fair Market Value. Moneys in all funds shall be invested in Investment Securities maturing not later than five (5) years from the date said investment is made.

Section 7.03. Accounting. The Trustee shall furnish to the City, not less than monthly, an accounting (which may be in the form of the Trustee's regular statement) of all investments made by the Trustee. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 7.02.

Section 7.04. Allocation of Earnings. Any income, profit or loss on such investments in any of the funds shall be deposited in or charged to the respective funds from which such investments were made.

Section 7.05. Acquisition, Disposition and Valuation of Investments. The City covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Trust Agreement, or otherwise containing gross proceeds of the Certificates (within the meaning of section 148 of the Code) will be acquired, disposed of, and valued (as of the date that valuation is required by this Trust Agreement or the Code) at Fair Market Value. Valuation shall occur annually, prior to the adoption of the City's budget.

Section 7.06. Commingling of Investment Securities and Disposition of Investments. Investments in all funds may be commingled for purposes of making, holding or disposing of investments, notwithstanding provisions herein for transfer to or holding in particular funds amounts received or held by the Trustee hereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds to which they are credited and otherwise as provided in this Trust Agreement. The Trustee may act as principal or agent in the making or disposing of any investment.

The Trustee may sell, or present for prepayment, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Investment Securities is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made pursuant to this Section 7.06.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder. The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Compensation of the Trustee. The City shall from time to time, as agreed upon between the City and the Trustee, pay to the Trustee reasonable compensation for its services, and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to, and fees and expenses of, independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder.

Section 8.02. Removal of Trustee. The City and the Corporation may by written agreement between themselves, or the Owners of a majority in aggregate principal amount of all Certificates Outstanding may by written request, at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint a successor or successors thereto. Any such successor shall be a bank or trust company in good standing, duly authorized to exercise trust powers and subject to examination by federal or State authority having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000). If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Trustee may at any time resign by giving written notice to the City and the Corporation and by giving to the Certificate Owners notice by mailing such notice to the registered owners of the Certificates. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the City does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the City shall mail notice thereof to the Certificate Owners at their respective addresses set forth on the Certificate registration books maintained pursuant to Section 2.11.

Section 8.03. Appointment of Agent. The Trustee may appoint an agent to exercise any of the powers, rights or remedies granted to the Trustee under this Trust Agreement, and to hold title to property or to take any other action which may be desirable or necessary.

Section 8.04. Merger or Consolidation. Any company into which the Trustee may be merged or converted, or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided that such company shall be eligible under Section 8.02) shall be the successor to the Trustee without

the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 8.05. Protection and Rights of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

Whenever in the administration of its duties under this Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed), shall be deemed to be conclusively proved and established by the certificate of the City Representative or the Corporation Representative and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may become the Owner of the Certificates with the same rights it would have if it were not the Trustee; may acquire and dispose of other bonds or evidences of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Certificates, whether or not such committee shall represent the Owners of the majority in principal amount of the Certificates then Outstanding.

The recitals, statements and representations by the City and the Corporation contained in this Trust Agreement or in the Certificates shall be taken and construed as made by and on the part of the City and the Corporation, as the case may be, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Trust Agreement or for anything whatever in connection with the funds

and accounts established hereunder, except only for its own gross negligence or willful misconduct.

The Trustee shall be responsible to perform only those duties specifically set forth herein and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement.

The Trustee shall not be deemed to have knowledge of an Event of Default hereunder unless it shall have actual knowledge at its Corporate Trust Office.

No provision of this Trust Agreement or any other document related hereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights hereunder.

Before taking any action under Article XII hereof the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur hereunder.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Certificates outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Trust Agreement shall not be construed as a duty.

Every provision of this Trust Agreement, the Lease Agreement, the Property Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of this Trust Agreement, including without limitation, this Article.

In acting as Trustee hereunder, the Trustee acts solely in its capacity as Trustee hereunder and not in its individual or personal capacity, and all persons, including without limitation the Owners, the City and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee hereunder for payment, except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual or personal capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City or the Corporation of the project or any portion thereof, or any other representation or warranty with respect to the Property or any portion thereof. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with this Trust Agreement, the Lease Agreement or the Property Lease or the existence, furnishing or functioning of the Property or the City's use of the Leased Property.

ARTICLE IX

MODIFICATION OR AMENDMENT OF AGREEMENT

Section 9.01. Amendments Permitted. This Agreement and the rights and obligations of the parties hereto and the Lease Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 9.03, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in Section 9.02.

This Agreement and the rights and obligations of the parties hereto and the Lease Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein or therein reserved to the City, (2) to cure, correct or supplement any ambiguous or defective provision contained herein or therein so long as such modification or amendment is not inconsistent with any other provision contained herein, (3) in regard to questions arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates or (4) to correct any incorrect property description. Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto or thereto as the case may be.

Section 9.02. Procedure for Amendment with Written Consent of Certificate Owners. This Agreement and the Lease Agreement may be amended by supplemental agreement as provided in this Section 9.02 in the event the consent of the Owners of the Certificates is required pursuant to Section 9.01. A copy of such supplemental agreement, together with a request to the Certificate Owners for their consent thereto, shall be mailed by the Trustee to each Owner of a Certificate at his address as set forth on the Registration Books, but failure to receive copies of such supplemental agreement and request shall not affect the validity of the supplemental agreement when assented to as in this Section provided.

Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in Section 9.03) and a notice shall have been mailed as hereinafter in this Section

provided. Each such consent shall be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof shall be such as is permitted by Section 2.10. Any such consent shall be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Certificates shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Certificates in the manner hereinbefore provided in this Section for the mailing of such supplemental agreement of the notice of adoption thereof, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in this Section (but failure to receive copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by this Section to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplemental agreement shall become effective upon the mailing of such last-mentioned notice, and such supplemental agreement shall be deemed conclusively binding upon the parties hereto and the Owners of all Certificates at the expiration of sixty (60) days after such mailing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60) day period.

Section 9.03. Disqualified Certificates. Certificates owned or held by or for the account of the City or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with the City (except any Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in this Agreement, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Agreement.

Section 9.04. Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to this Article IX, this Agreement or the Lease Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of this Agreement or the Lease Agreement, as the case may be, for any and all purposes.

The Trustee may require each Certificate Owner, before his consent provided for in this Article IX shall be deemed effective, to reveal whether the Certificates as to which such consent is given are disqualified as provided in Section 9.03.

Section 9.05. Endorsement or Replacement of Certificates Delivered After Amendments. The Trustee or the City may determine that Certificates delivered after the

effective date of any action taken as provided in this Article IX shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Certificate Outstanding at such effective date and presentation of his Certificate for the purpose at the Corporate Trust Office of the Trustee, a suitable notation shall be made on such Certificate. The Trustee or the City may determine that the delivery of substitute Certificates, so modified as in the opinion of the Trustee is necessary to conform to such Certificate Owners' action, which substitute Certificates shall thereupon be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such substitute Certificate shall be exchanged at the Corporate Trust Office of the Trustee, without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Outstanding Certificate.

Section 9.06. Amendatory Endorsement of Certificates. The provisions of this Article IX shall not prevent any Certificate Owner from accepting any amendment as to the particular Certificates held by him, provided that proper notation thereof is made on such Certificates.

ARTICLE X

COVENANTS; NOTICES

Section 10.01. Compliance With and Enforcement of Lease Agreement. The City covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement.

The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be an Event of Default under or a ground for cancellation or termination of the Lease Agreement. The Corporation and the City, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Leased Property, which may or can in any manner affect such estate of the City, will deliver the same, or a copy thereof, to the Trustee.

Section 10.02. Prosecution and Defense of Suits. The Corporation and the City shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Property, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Section 10.03. Recordation and Filing. The City shall record and file the Lease Agreement, the Assignment Agreement and all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trustee and the Certificate Owners.

Section 10.04. Reserved.

Section 10.05. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of that certain Continuing Disclosure Certificate executed by the City as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Lease, failure of the City to comply with such Continuing Disclosure Certificate shall not constitute an Event of Default; *provided, however*, that any Participating Underwriter (as such term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Certificates may take such actions as may be necessary and appropriate to compel

performance by the City of its obligations under this Section, including seeking mandate or specific performance by court order.

Section 10.06. Further Assurances. The Corporation and the City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Agreement and the Lease Agreement, and for the better assuring and confirming unto the Owners of the Certificates the rights and benefits provided herein.

ARTICLE XI

LIMITATION OF LIABILITY

Section 11.01. Limited Liability of City. Except for the payment of Lease Payments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the City contained in the Lease Agreement and herein, the City shall have no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to this Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

Section 11.02. No Liability for Trustee Performance. Neither the City nor the Corporation shall have any obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under this Trust Agreement, except where the City or the Corporation, as the case may be, has given specific direction to the Trustee to take certain actions.

Section 11.03. Indemnification. The Corporation and the City agree to indemnify and save the Trustee harmless from and against all claims, suits, losses, expenses, liabilities, and actions brought against it, or to which it is made a party, and from all losses and damages suffered by it as a result thereof, including where and to the extent such claim, suit or action arises out of the actions of any other party to this Agreement including but not limited to the ownership, operation or use of the Leased Property by the City. Such indemnification shall not extend to claims, suits and actions brought against the Trustee for failure to perform and carry out the duties specifically imposed upon and to be performed by it pursuant to this Trust Agreement, which failure constitutes negligence or willful misconduct by the Trustee. Such indemnity shall survive the satisfaction and discharge of this Trust Agreement or resignation or removal of the Trustee. In the event the Corporation or the City is required to indemnify the Trustee as herein provided, the Corporation or the City shall be subrogated to the rights of the Trustee to recover such losses or damages from any other person or entity.

Section 11.04. Opinion of Counsel. Before being required to take any action, the Trustee may require an opinion of Independent Counsel acceptable to the Trustee, which opinion shall be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or a verified certificate of any party hereto, or both, concerning the proposed action. If it does so in good faith, Trustee shall be protected in relying thereon.

Section 11.05. Limitation of Rights to Parties and Certificate Owners. Nothing in this Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the City, the Corporation, the Trustee, the Owners of the Certificates, any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Corporation, the Trustee and said Owners.

ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

Section 12.01. Assignment of Rights. Pursuant to the Assignment Agreement the Corporation has transferred, assigned and set over to the Trustee all of the Corporation's rights in and to the Lease Agreement (excepting only the Corporation's rights under Sections 4.6, 5.7, 7.3 and 9.4 thereof), including without limitation all of the Corporation's rights to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

Section 12.02. Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon request of the Owners as provided in Article IX of the Lease Agreement shall, exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything herein or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

Section 12.03. Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article XII or Article IX of the Lease Agreement shall be applied by the Trustee in the order following upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee and of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Section 12.04. Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any

power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

Section 12.05. Non-waiver. Nothing in this Article XII or in any other provision of this Agreement or in the Certificates, shall affect or impair the obligation of the City to pay or prepay the Lease Payments in accordance with and subject to the terms and provisions of the Lease Agreement, or affect or impair the right of action, which is also absolute and unconditional, of the Certificate Owners to institute suit to enforce and collect such payment. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by this Article XII to the Trustee or to the Owners of Certificates may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Certificate Owners.

Section 12.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Section 12.07. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, without the consent of a majority in aggregate principal amount of the Certificates Outstanding.

Section 12.08. Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least twenty-five percent (25%) in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates

of any remedy hereunder; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under this Agreement, except in the manner herein provided, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Agreement.

ARTICLE XIII

DEFEASANCE

Section 13.01. Discharge of Trust Agreement. The Certificates may be paid by the City in any of the following ways, provided that the City also pays or causes to be paid any other sums payable hereunder by the City:

(a) by paying or causing to be paid the Principal Amount relating to the Certificates, together with interest thereon, as and when the same become due and payable ;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 13.03) to pay or prepay all Certificates then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the Certificates then Outstanding.

If the City shall also pay or cause to be paid all other sums payable by the City hereunder, then and in that case, at the election of the City (evidenced by a Written Request of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and this Trust Agreement), and notwithstanding that any Certificates shall not have been surrendered for payment, this Trust Agreement and the pledge of Lease Payments and other assets made under this Trust Agreement and all covenants, agreements and other obligations of the City under this Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to this Trust Agreement which are not required for the payment or prepayment of Certificates not theretofore surrendered for such payment or prepayment to the City.

Section 13.02. Discharge of Liability on Certificates. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 13.03) to pay or prepay any Outstanding Certificates (whether upon or prior to their respective maturities or the prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Certificates shall cease, terminate and be completely discharged, and the Owner thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 13.04.

The City may at any time surrender to the Trustee for cancellation by it any Certificates previously executed and delivered, which the City may have acquired in any manner whatsoever, and such Certificates, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 13.03. Deposit of Money or Securities with Trustee. Whenever in this Trust Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Certificates, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds established pursuant to this Trust Agreement and shall be--

(a) lawful money of the United States of America in an amount equal to the principal amount of such Certificates and all unpaid interest thereon to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Certificates and all unpaid interest thereon to the prepayment date; or

(b) Defeasance Obligations (as defined below), the principal of and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the prepayment date, as the case may be, on the Certificates to be paid or prepaid, as such principal and interest become due, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Trust Agreement or by Written Request of the City) to apply such money to the payment of such principal and interest with respect to such Certificates.

For purposes of this Section, "Defeasance Obligations" shall mean the United States Obligations and Pre-refunded Municipal Obligations defined in paragraphs (1) and (3) of the definition of Investment Securities.

Section 13.04. Payment of Certificates After Discharge of Trust Agreement. Notwithstanding any provisions of this Trust Agreement, any moneys held by the Trustee in trust for the payment of the Principal Amount relating to any Certificates, together with interest thereon and remaining unclaimed for two years after the Principal Amount relating to all of the Certificates has become due and payable (whether at maturity or upon call for prepayment as provided in this Trust Agreement), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Certificates became due and payable, shall be repaid to the City free from the trusts created by this Trust Agreement upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the City and the Trustee with respect to claims of Owners of Certificates which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as

aforesaid, the Trustee may (at the cost of the City) first mail to the Owners of Certificates which have not yet been paid, at the addresses shown on the Registration Books a notice, in such form as may be deemed appropriate by the Trustee with respect to the Certificates so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

ARTICLE XIV

MISCELLANEOUS

Section 14.01. Records. The Trustee shall keep complete and accurate records of all moneys received and disbursed under this Agreement, which shall be available for inspection by the City, the Corporation, and any Owner, or the agent of any of them, at any time during regular business hours, upon reasonable prior notice.

Section 14.02. Notices. All written notices to be given under this Agreement shall be given by mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective upon receipt after deposit in the United States mail, postage prepaid or, in the case of personal delivery, upon delivery to the address set forth below:

If to the City:	City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Corporation:	Palo Alto Public Improvement Corporation c/o City Clerk 250 Hamilton Avenue, 7th Floor Palo Alto, CA 94301
If to the Trustee:	U.S. Bank National Association Global Corporate Trust Services One California Street, Suite 1000 San Francisco, CA 94111 Fax: 415-677-3768

Section 14.03. Governing Law. This Agreement shall be construed and governed in accordance with the laws of the State.

Section 14.04. Binding Effect; Successors. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever in this Agreement either the Corporation, the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the Corporation, the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 14.05. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 14.06. Destruction of Cancelled Certificates. Whenever in this Agreement provision is made for the surrender to or cancellation by the Trustee and the delivery to the City of any Certificates, the Trustee may, upon the request of the City Representative, in lieu of such cancellation and delivery, destroy such Certificates and deliver a certificate of such destruction to the City.

Section 14.07. Headings. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Agreement. All references herein to "Articles", "Sections", and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; and the words "herein", "hereof", "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 14.08. Waiver of Notice. Whenever in this Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 14.09. Separability of Invalid Provisions. In case any one or more of the provisions contained in this Agreement or in the Certificates shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The parties hereto hereby declare that they would have entered into this Agreement and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

Authorized Officer

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION

[Patrick Burt]
President

Attest:

[Beth Minor]
Secretary

CITY OF PALO ALTO

Lalo Perez
Director of Administrative Services

(S E A L)

Attest:

Beth Minor
City Clerk

EXHIBIT A

FORM OF 2018 CERTIFICATE OF PARTICIPATION

**CITY OF PALO ALTO 2018
CERTIFICATE OF PARTICIPATION
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable) (Green Bonds)**

**Evidencing the Undivided Fractional Interest of the Owner
Hereof in Lease Payments to be Made by the**

CITY OF PALO ALTO, CALIFORNIA

**As Rental For Certain Property Pursuant
to a Lease Agreement With the**

Palo Alto Public Improvement Corporation

DATED DATE: RATE OF INTEREST: MATURITY DATE: CUSIP
[] [], 2018

REGISTERED OWNER:

PRINCIPAL AMOUNT:

THIS IS TO CERTIFY THAT the Registered Owner identified above, or registered assigns, as the registered owner (the "Registered Owner") of this Certificate of Participation (the "Certificate") is the owner of an undivided fractional interest in Lease Payments under the Lease Agreement dated as of [] 1, 2018, by and between the Palo Alto Public Improvement Corporation, a nonprofit public benefit corporation duly formed and acting under the laws of the State of California (the "Corporation"), and the City of Palo Alto, a chartered municipal corporation and political subdivision duly organized and existing under the Constitution and the laws of the State of California the ("City") (the " Lease Agreement") which Lease Payments and certain other rights and interests under the Lease Agreement have been assigned to U.S. Bank National Association, as trustee (the "Trustee"), having a corporate trust office in San Francisco, California or such other place as designated by the Trustee (the "Corporate Trust Office") or such other or additional offices as the Trustee may designate from time to time as the corporate trust office.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Lease Agreement, on the Maturity Date identified above, the Principal Amount identified above, representing a portion of the Lease Payments designated as principal, and to receive on [May 1, 2018] and semiannually thereafter on May 1 and November 1 of each year (the "Payment Dates") until payment in full of said principal, the Registered Owner's proportionate share of the Lease Payments designated as interest coming due during the interest period immediately preceding each of the Payment Dates; provided that interest with respect hereto shall be payable from the Payment Date next preceding the date of execution of this Certificate unless (i) this Certificate is executed on a Payment Date, in which event interest shall be payable from such Payment Date, or (ii) this Certificate is executed after the close of business on the fifteenth (15th) day of the month immediately preceding a Payment Date and prior to such Payment Date, in which event interest shall be payable from such Payment Date, or (iii) unless this Certificate is executed on or before the Record Date immediately preceding the first Payment Date, in which event interest shall be payable from the Closing Date. Said proportionate share of the portion of the Lease Payments designated as interest is the result of the multiplication of the aforesaid portion of the Lease Payments designated as principal by the Rate of Interest per annum identified above. Said amounts are payable in lawful money of the United States of America in the case of principal and interest at maturity upon presentation hereof at the Corporate Trust Office of the Trustee, and in the case of interest prior to maturity by check or draft mailed by the Trustee to the Registered Owner hereof at the address as it appears on the registration books of the Trustee.

This Certificate has been executed and delivered by the Trustee pursuant to the terms of a Trust Agreement by and among the Trustee, the Corporation and the City, dated as of [] 1, 2018 (the "Trust Agreement"). The City has certified that it is authorized to enter into the Lease Agreement and the Trust Agreement under the constitution and laws of the State of California, for the purpose of leasing certain land and public improvements from the Corporation. Reference is hereby made to the Lease Agreement and the Trust Agreement (copies of which are on file at the Corporate Trust Office of the Trustee) for a description of the terms on which the Certificates are delivered, the rights thereunder of the owners of the Certificates, the rights, duties and immunities of the Trustee and the rights and obligations of the City under the Lease Agreement, to all of the provisions of the Lease Agreement and the Trust Agreement the Registered Owner of this Certificate, by acceptance hereof, assents and agrees.

The City is obligated under the Lease Agreement to pay Lease Payments from any source of available funds. The obligation of the City to pay the Lease Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt of the City, the State of California or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto with the written consent of the owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then outstanding, and may be amended without such consent under certain circumstances; provided that no such amendment shall adversely affect the interests of the

owners of the Certificates or shall impair the right of any owner to receive in any case such owner's proportionate share of any Lease Payment in accordance with such owner's Certificate.

This Certificate is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such transfer a new Certificate or Certificates, of authorized denomination or denominations and of the same maturity, for the same aggregate principal amount will be executed and delivered to the transferee in exchange herefor. The City, the Corporation and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, whether or not this Certificate shall be overdue, and the City, the Corporation and the Trustee shall not be affected by any notice to the contrary.

The Certificates maturing on or before May 1, 20[], are not subject to optional prepayment prior to their respective stated maturities. The Certificates maturing on or after May 1, 20[] are subject to optional prepayment prior to their respective stated maturities, at the option of the City, in whole, or in part among maturities on such basis as designated by the City and by lot within any one maturity, on any date on or after May 1, 20[], from prepayments of the Lease Payments made pursuant to the Lease Agreement, at the prepayment price (expressed as percentages of the principal amount of Certificates or portions thereof to be prepaid) set forth in the following table, together with accrued interest to the date fixed for prepayment:

<u>Prepayment Dates</u>	<u>Prepayment Price</u>
On or after May 1, 20[] to and including April 30, 20[]	[]%
On or after May 1, 20[] to and including April 30, 20[]	[]
On or after May 1, 20[] and thereafter	[]

Mandatory Sinking Fund Prepayments of the Certificates. The Certificates maturing on May 1 in each of the years [20[], 20[] and 20[]] are subject to mandatory sinking fund prepayment prior to their respective stated maturities, in the amounts and years set forth below, at the prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment.

Certificates Maturing May 1, 20[]

<u>Sinking Fund Prepayment Date (May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

Certificates Maturing May 1, 20[]

Sinking Fund	
Prepayment Date	
<u>(May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

Certificates Maturing May 1, 20[]

Sinking Fund	
Prepayment Date	
<u>(May 1)</u>	<u>Sinking Payments</u>
20[]	\$[]
20[]	[]
20[]	[]
20[] (maturity)	[]

The Certificates are also subject to prepayment on any date in whole, or in part among maturities on a pro rata basis and by lot within a maturity, from the Net Proceeds (as defined in the Trust Agreement) of insurance or condemnation with respect to the Leased Property (as defined in the Lease Agreement), which Net Proceeds are deposited in the Lease Payment Fund and credited towards the prepayment of the Lease Payments made by the City pursuant to the Lease Agreement, at a prepayment price equal to the principal amount thereof to be prepaid together with accrued interest to the date fixed for prepayment, without premium.

As provided in the Trust Agreement, notice of prepayment shall be mailed, not less than thirty (30) nor more than forty-five (45) days before the prepayment date, to the registered owner of the Certificate to be prepaid, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for prepayment.

If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment.

Unless this Certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration of transfer, exchange, or payment, and any Certificate executed and delivered is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co., or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, this Certificate has been executed and delivered by U.S. Bank National Association, as trustee, acting pursuant to the Trust Agreement.

Execution Date:

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

(FORM OF ASSIGNMENT)

For value received, the undersigned do(es) hereby sell, assign and transfer unto

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Certificate and do(es) hereby irrevocably constitute and appoint _____
_____, attorney, to transfer the same on the registration books of the Trustee, with full
power of substitution in the premises.

Dated:

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by an
eligible guarantor

NOTICE: The signature on this assignment must
correspond with the name(s) as
written on the face of the within
Certificate in every particular without
alteration or enlargement or any
change whatsoever.

Attachment A-5

3-31-18 Jones Hall Draft

\$ _____
CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)

PURCHASE AGREEMENT

_____, 2018

City of Palo Alto
250 Hamilton Ave.
Palo Alto, CA 94301

Ladies and Gentlemen:

[Underwriter] (the “**Underwriter**”) offers to enter into this Purchase Agreement (this “**Purchase Agreement**”) with the City of Palo Alto (the “**City**”). This offer is made subject to the City’s acceptance by execution of this Purchase Agreement and delivery of the same to the Underwriter on or before 11:59 p.m. Pacific Time on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City at any time prior to such acceptance. Upon the acceptance hereof, the Purchase Agreement will be binding upon the City and the Underwriter.

The City acknowledges and agrees that: (i) the primary role of the Underwriter, as an underwriter, is to purchase securities, for resale to investors, in an arm’s length commercial transaction between the City and the Underwriter, and the Underwriter has financial and other interests that differ from those of the City; (ii) the Underwriter is acting solely as a principal and is not acting as a Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), municipal advisor or fiduciary to the City, and has not assumed any advisory or fiduciary responsibility to the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters); (iii) the only obligations the Underwriter has to the City with respect to the transaction contemplated hereby expressly are set forth in this Purchase Agreement; and (iv) the City has consulted its own municipal, legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate. The City acknowledges and represents that it has engaged PFM Financial Advisors LLC. as its municipal advisor (the “**Municipal Advisor**”) and will rely solely on the financial advice of the Municipal Advisor with respect to the Certificates.

Capitalized terms used in this Purchase Agreement and not otherwise defined herein will have the respective meanings set forth for such terms in the Trust Agreement (defined below).

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth in this Purchase Agreement, the Underwriter agrees to purchase for offering to the public, and the City agrees to cause the execution

and delivery to the Underwriter, all (but not less than all) of the certificates of participation captioned above (the "**Certificates**") at a purchase price of \$_____ (being an amount equal to the principal amount of the Certificates (\$_____.00), *plus* a net original issue premium/*less* a net original issue discount of \$_____, and *less* an underwriter's discount of \$_____). The obligations of the Underwriter to purchase, accept delivery of and pay for the Certificates will be conditioned on the delivery of all of the Certificates to the Underwriter at Closing (hereafter defined).

Section 2. Certificate Terms; Authorizing Instruments; Purpose. The Certificates will be dated their date of delivery and will mature and bear interest as shown on Exhibit A. The Certificates will be as described in, and will be executed and delivered under, a Trust Agreement, dated as of _____ 1, 2018 ("**Trust Agreement**"), among the Palo Alto Public Improvement Corporation (the "**Corporation**"), the City and U.S. Bank National Association, as trustee (the "**Trustee**"). The Certificates are payable and subject to prepayment as shown in Exhibit A.

The Certificates represent undivided proportionate interests in "**Lease Payments**" to be made by the City under a Lease Agreement, dated as of _____ 1, 2018 (the "**Lease Agreement**"), between the City, as lessee, and the Corporation, as lessor.

The City and the Corporation are also entering into a Property Lease, dated as of _____ 1, 2018 (the "**Property Lease**"), under which the City leases the real property described therein to the Corporation and, under the Lease Agreement, the Corporation leases the same real property back to the City.

The Corporation will assign to the Trustee its right to receive the Lease Payments pursuant to an Assignment Agreement, dated as of _____ 1, 2018 (the "**Assignment Agreement**").

The proceeds of the sale of the Certificates will be used to (i) provide funds to refinance a lease payment obligation of the City related to the City's outstanding City of Palo Alto Certificates of Participation Series 2002B (Taxable) (Civic Center Refinancing and Downtown Parking Improvements Project)(the "**2002 Certificates**") and to defease the 2002 Certificates, (ii) finance the cost of improving the City's municipal golf course, and (iii) pay the costs of executing and delivering the Certificates.

Section 3. Public Offering. The Underwriter agrees to make an initial bona fide public offering of all of the Certificates, at not in excess of the initial public offering yields or prices set forth on Exhibit A. Following the initial public offering of the Certificates, the offering prices may be changed from time to time by the Underwriter, provided that the Underwriter shall not change any of the principal amounts or the interest rates set forth on Exhibit A. The Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

The Certificates are subject to prepayment as set forth in Exhibit A.

Section 4. Official Statement; Continuing Disclosure. The City has delivered to the Underwriter the Preliminary Official Statement dated _____, 2018 (the "**Preliminary Official Statement**") and will deliver to the Underwriter a final official

statement dated the date of this Purchase Agreement (as amended and supplemented from time to time pursuant to Section 5(j) of this Purchase Agreement, the “**Official Statement**”). Subsequent to its receipt of the City’s 15c2-12 Certificate, in substantially the form attached hereto as Exhibit B, deeming the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission (“**Rule 15c2-12**”), the Underwriter has distributed copies of the Preliminary Official Statement. The City hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute in printed and/or electronic format the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12, and any supplements and amendments thereto as have been approved by the City as evidenced by the execution and delivery of such document by an officer of the Corporation and the City), the Trust Agreement, the Property Lease, the Assignment Agreement, the Lease Agreement, this Purchase Agreement, the Continuing Disclosure Certificate (hereinafter defined) and all information contained therein, and all other documents, certificates and written statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Agreement, in connection with the offer and sale of the Certificates by the Underwriter.

The Underwriter hereby agrees to deliver a copy of the Official Statement to the Municipal Securities Rulemaking Board (the “**MSRB**”) through the Electronic Municipal Marketplace Access website of the MSRB on or before the Closing Date and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Certificates, including, without limitation, MSRB Rule G-32 and Rule 15c2-12. The City agrees to deliver to the Underwriter as many copies of the Official Statement as the Underwriter will reasonably request as necessary to comply with paragraph (b)(4) of Rule 15c2-12. The City agrees to deliver the final Official Statement within seven business days after the execution hereof, or such earlier date identified by the Underwriter to be necessary to allow the Underwriter to meet its obligations under Rule 15c2-12 and Rule G-32 of the MSRB.

The Underwriter agrees to: (1) provide the City with final pricing information with respect to the Certificates on a timely basis prior to the Closing and (2) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the offering, sale and delivery of the Certificates to ultimate purchasers.

In connection with execution and delivery of the Certificates, and in order to assist the Underwriter with complying with the provisions of Rule 15c2-12, the City will execute a continuing disclosure certificate (the “**Continuing Disclosure Certificate**”), under which the City will undertake to provide certain financial and operating data as required by Rule 15c2-12. The form of the Continuing Disclosure Certificate is attached as an appendix to the Preliminary Official Statement and will be attached as an appendix to the final Official Statement.

Section 5. Representations, Warranties and Covenants of the City. The City hereby represents, warrants and agrees with the Underwriter that:

(a) The City is a municipal corporation and charter city, organized and existing under the Constitution of the State of California (the “**State**”) and has all necessary power and authority to adopt its resolution adopted on April 16, 2018 (the “**City Resolution**”), to enter into and perform its duties under the Property Lease, the Lease

Agreement, the Trust Agreement, the Continuing Disclosure Certificate, and this Purchase Agreement (the “**City Agreements**”).

(b) The city council (the “**City Council**”) of the City has taken official action by adopting the City Resolution by a majority of the members of the City Council at a meeting duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution and, delivery of the Trust Agreement, the the Lease Agreement, the Property Lease and the Continuing Disclosure Certificate and due performance of the City Agreements and the Official Statement and the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated hereby.

(c) By all necessary official action, the City has duly adopted the City Resolution, has duly authorized the preparation and delivery of the Preliminary Official Statement and the preparation, execution and delivery of the Official Statement, has duly authorized and approved the execution and delivery of, and the performance of its obligations under, the City Agreements, and the consummation by it of all other transactions contemplated by the City Resolution, the City Agreements, the Preliminary Official Statement and the Official Statement. When executed and delivered by their respective parties, the City Agreements (assuming due authorization, execution and delivery by and enforceability against the other parties thereto) will be in full force and effect and each will constitute legal, valid and binding agreements or obligations of the City, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors rights generally, the application of equitable principles, the exercise of judicial discretion and the limitations on legal remedies against public entities in the State.

(d) At the time of the City’s acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the information and statements in the Official Statement (other than any information concerning the Depository Trust Company and the book-entry system for the Certificates or provided by the Underwriter) do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(e) As of the date hereof other than as disclosed in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the City or, to the best knowledge of the City, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the City, or the titles of its members or officers; (ii) in any way question or affect the validity or enforceability of City Agreements or the Certificates, or (iii) in any way question or affect this Purchase Agreement or the transactions contemplated by this Purchase Agreement, the Official Statement, or any other agreement or instrument to which the City is a party relating to the Certificates.

(f) There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the City required for the execution and delivery of this Purchase Agreement or the consummation by the City of the other transactions contemplated by the Official Statement or the City Agreements.

(g) Any certificate signed by any official of the City authorized to do so will be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(h) Except as previously disclosed to the Underwriter, the City is not in default, and at no time has the City defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding.

(i) Except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, there has not been any materially adverse change in the financial condition of the City since June 30, 2017, and there has been no occurrence or circumstance or combination thereof that is reasonably expected to result in any such materially adverse change.

(j) If between the date of this Purchase Agreement and the date which is 25 days following the End of the Underwriting Period (as defined in paragraph (f)(2) of Rule 15c2-12), any event will occur which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will immediately notify the Underwriter, and if, in the opinion of the Underwriter and the City, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriter.

(k) After the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably objects in writing or which is disapproved by Underwriter's Counsel.

(l) The instances in which the City has previously failed to comply in all material respects with any undertakings under Rule 15c2-12 in the past five years are described in the Official Statement. The report of _____ dated _____, 2018 (the "**Continuing Disclosure Due Diligence Report**") identifies all of the issues for which the City and other related entities were obligated to provide continuing disclosure under Rule 15c2-12 during the past five years and all of the material event filings that were required with respect to such issues during the five-year period.

(m) The City does not need the consent of its auditor to include its comprehensive annual financial report for the fiscal year ended June 30, 2017 as an appendix to the Official Statement.

(n) The City will comply with the defeasance and prepayment provisions of the legal documents related to the 2002 Certificates and the related lease agreement.

(o) The City covenants with the Underwriter that the City will cooperate with the Underwriter (at the cost and written directions of the Underwriter), in qualifying the Certificates for offer and sale under the securities or Blue Sky laws of such jurisdiction of

the United States as the Underwriter may reasonably request; provided, however, that the City shall not be required to consent to suit or to service of process, or to qualify to do business, in any jurisdiction. The City consents to the use by the Underwriter of the City Agreements, the Preliminary Official Statement and the Official Statement in the course of its compliance with the securities or Blue Sky laws of the various jurisdictions related to the offering and sale of the Certificates.

Section 6. The Closing. At 8:00 A.M., Pacific time, on _____, 2018, or on such earlier or later time or date as may be agreed upon by the Underwriter and the City (the “**Closing**”), the Corporation will deliver the Certificates to the Underwriter, through the book-entry system of The Depository Trust Company (“**DTC**”). Prior to the Closing, the City will deliver, at the offices of Jones Hall, A Professional Law Corporation (“**Special Counsel**”) in San Francisco, California, or such other place as is mutually agreed upon by the Underwriter and the City, the other documents described in this Purchase Agreement. On the date of the Closing, the Underwriter will pay the purchase price of the Certificates as set forth in Section 1 of this Purchase Agreement in immediately available funds to the order of the Trustee.

The Certificates will be executed and delivered in fully registered form and will be prepared and delivered as one Certificate for each maturity registered in the name of a nominee of DTC. It is anticipated that CUSIP identification numbers will be inserted on the Certificates, but neither the failure to provide such numbers nor any error with respect thereto will constitute a cause for failure or refusal by the Underwriter to accept delivery of the Certificates in accordance with the terms of this Purchase Agreement.

Section 7. Conditions to Underwriter’s Obligations. The Underwriter has entered into this Purchase Agreement in reliance upon the representations and warranties of the City contained herein and to be contained in the documents and instruments to be delivered on the date of the Closing, and upon the performance by the City of its obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the date of the Closing. The Underwriter’s obligations under this Purchase Agreement are and will also be subject to the sale, execution and delivery of the Certificates as well as the following conditions:

(a) The representations and warranties of the City contained in this Agreement will be true and correct in all material respects on the date of this Purchase Agreement and on and as of the date of the Closing as if made on the date of the Closing;

(b) As of the date of the Closing, the Official Statement may not have been amended, modified or supplemented, except in any case as may have been agreed to by the Underwriter;

(c) (i) As of the date of the Closing, the Corporation Resolution (as defined in Exhibit C), the City Resolution, the Corporation Agreements (as defined in Exhibit C) and the City Agreements will be in full force and effect, and will not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter, (ii) the Corporation will perform or have performed all of its obligations required under or specified in the Corporation Resolution, the Corporation Agreements and this Purchase Agreement to be performed at or prior to the date of the Closing; and (iii) the City will perform or have performed all of its obligations required under or specified in the City

Resolution, the City Agreements and this Purchase Agreement to be performed at or prior to the date of the Closing;

(d) As of the date of the Closing, all necessary official action of the Corporation relating to the Corporation Agreements, the Corporation Resolution and the Official Statement, and all necessary official action of the City relating to the City Agreements, the City Resolution, and the Official Statement, will have been taken and will be in full force and effect and will not have been amended, modified or supplemented in any material respect, except as may have been agreed to by the City and Underwriter; and

(e) As of or prior to the date of the Closing, the Underwriter will have received each of the following documents:

- (1) Certified copies of the Corporation Resolution and the City Resolution.
- (2) Duly executed copies of the Trust Agreement, the Assignment Agreement, the Lease Agreement, the Property Lease, the Continuing Disclosure Certificate and this Purchase Agreement.
- (3) The Preliminary Official Statement and the Official Statement, with the Official Statement duly executed on behalf of the City.
- (4) An approving opinion of Special Counsel, dated as of the Closing, as to the validity of the Certificates and the exclusion of interest with respect to the Certificates from federal gross income, if applicable, and State income taxation, addressed to the City substantially in the form attached as an appendix to the Official Statement, and a reliance letter with respect thereto addressed to the Underwriter.
- (5) A supplemental opinion of Special Counsel, addressed to the Underwriter, to the effect that:
 - (i) The Purchase Agreement has been duly executed and delivered by the City and is valid and binding upon the City, subject to laws relating to bankruptcy, insolvency, reorganization or creditors' rights generally and to the application of equitable principles;
 - (ii) The Certificates are exempt from registration pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and
 - (iii) The statements contained in the Official Statement on the cover and under the headings "INTRODUCTION," "THE CERTIFICATES," "SOURCE OF PAYMENT FOR THE CERTIFICATES" and "TAX MATTERS," and in "APPENDIX E - SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS" and "APPENDIX D – FORM OF OPINION OF SPECIAL COUNSEL," insofar as such statements purport to describe

certain provisions of the Certificates, the Property Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement, or to state legal conclusions and the opinion of Special Counsel regarding the tax-exempt nature of the interest with respect to the Certificates, present a fair and accurate summary of the provisions thereof.

- (6) An opinion of Quint & Thimmig LLP, as disclosure counsel to the City, addressed to the Underwriter, to the effect that: During the course of our work on this matter, no facts have come to our attention that cause us to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion or any information with respect to the Corporation or the City's compliance with continuing disclosure undertakings under Rule 15c2-12 included in the Official Statement and the appendices to the Official Statement) as of the date of the Official Statement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.
- (7) An opinion or opinions of the City Attorney, dated as of the Closing addressed to the Corporation, the City and the Underwriter, in form and substance acceptable to the Underwriter, to the effect that:
 - (i) The City is a municipal corporation and charter city duly organized and validly existing under the laws of the State of California. The City Council is the governing body of the City.
 - (ii) The City has all necessary power and authority to adopt the City Resolution, to enter into and perform its duties under the City Agreements, and, when executed and delivered by the respective parties thereto, the City Agreements will each constitute a legal, valid and binding obligation of the City enforceable in accordance with its respective terms, except as such enforcement may be limited by bankruptcy, moratorium and the exercise of equitable principles where equitable remedies are sought.
 - (iii) The City Resolution was duly adopted at a meeting of the City Council, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolution is in full force and effect and has not been modified, amended or rescinded since the date of its adoption.
 - (iv) The execution and delivery by the City of the City Agreements, the Official Statement and the other instruments contemplated by any of such documents to which the City is a party, and compliance with the provisions of the City Agreements, will not

conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound in a manner which would materially adversely affect the City's performance under the City Agreements.

- (v) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations under the City Agreements have been obtained and are in full force and effect.
- (vi) To the best of the City Attorney's knowledge other than as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the City (A) affecting the existence of the City or the titles of its City Council members or its officers to their respective offices, (B) affecting the existence of the City, (C) seeking to restrain or to enjoin the issuance or sale of the Certificates, (D) in any way contesting or affecting the validity or enforceability of the City Resolution or the City Agreements, (E) in any way contesting the powers of the City to execute and deliver the Certificates or its authority with respect to the City Resolution or the City Agreements, (F) in any way contesting or affecting any of the rights, powers, duties or obligations of the City with respect to the money or property pledged or to be pledged under the Trust Agreement, the Lease Agreement or the Property Lease or (G) in any way questioning the accuracy of the statements in the Official Statement.
- (vii) The Corporation is a nonprofit public benefit corporation organized and validly existing under the laws of the State of California. The Board of Directors of the Corporation is the governing body of the Corporation.
- (viii) The Corporation has all necessary power and authority to adopt the Corporation Resolution, to enter into and perform its duties under the Corporation Agreements and, when executed and delivered by the respective parties thereto, the Corporation Agreements will each constitute legal, valid and binding obligation of the Corporation enforceable in accordance with its respective terms, except as such enforcement may be limited by bankruptcy, moratorium and

the exercise of equitable principles where equitable remedies are sought.

- (ix) The Corporation Resolution was duly adopted at a regular meeting of the Board of Directors, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Corporation Resolution is in full force and effect and has not been modified, amended or rescinded since the date of its adoption.
- (x) To the best of the City Attorney's knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the Corporation (A) affecting the existence of the Corporation or the titles of its Board members or its officers to their respective offices, (B) affecting the existence of the Corporation, (C) seeking to restrain or to enjoin the execution and delivery of the Certificates, (D) in any way contesting or affecting the validity or enforceability of the Corporation Resolution or the Corporation Agreements, (E) in any way contesting the powers of the Corporation to execute and deliver the Certificates or its authority with respect to the Corporation Resolution or the Corporation Agreements, (F) in any way contesting or affecting any of the rights, powers, duties or obligations of the Corporation with respect to the money or property pledged or to be pledged under the Trust Agreement, the Lease Agreement or the Property Lease or (G) in any way questioning the accuracy of the statements in the Official Statement.
- (xi) The execution and delivery by the Corporation of the Corporation Agreements and the other instruments contemplated by any of such documents to which the Corporation is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Corporation is a party or is otherwise subject or bound in a manner which would materially adversely affect the Corporation's performance under the Corporation Agreements.
- (xii) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which

would materially adversely affect, the performance by the Corporation of its obligations under the Corporation Agreements have been obtained and are in full force and effect.

- (xiii) Nothing has come to the attention of the City Attorney which has led the City Attorney to believe that the Official Statement (excluding therefrom the financial and statistical data, information regarding compliance with continuing disclosure obligations of the City and its related entities, forecasts included therein and information about The Depository Trust Company or information provided by the Underwriter, as to which no opinion need be expressed) contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.
- (8) A letter of counsel to the Underwriter ("**Underwriter's Counsel**"), addressed to the Underwriter, in form and substance acceptable to the Underwriter.
- (9) An executed certificate of the City, dated as of the date of the Preliminary Official Statement, in the form attached as Exhibit B.
- (10) An executed closing certificate of the Corporation, dated as of the Closing, in the form attached as Exhibit C.
- (11) An executed closing certificate of the City, dated as of the Closing, in the form attached as Exhibit D.
- (12) The opinion of counsel of the Trustee, dated as of the Closing, addressed to the Corporation, the City and the Underwriter to the effect that:
 - (i) The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the State, having full powers and authority and being qualified to execute and deliver the Certificates, enter into, accept and administer the trust created under the Trust Agreement and enter into the Assignment Agreement.
 - (ii) The Trust Agreement and the Assignment Agreement have been duly authorized, executed and delivered by the Trustee, and, assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement and the Assignment Agreement constitute legal, valid and binding agreements of the Trustee enforceable in accordance with their terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights

generally and the application of equitable principles if equitable remedies are sought.

- (13) A certificate of the Trustee, dated as of the Closing, in the form attached as Exhibit E.
- (14) If applicable, a tax certificate duly signed on behalf of the City in form and substance acceptable to Special Counsel and the Underwriter.
- (15) Evidence of required filings with the California Debt and Investment Advisory Commission.
- (16) Evidence of one or more of the CLTA or ALTA title insurance policies required under the Lease Agreement for the real property described therein.
- (17) A copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book-entry system.
- (18) Evidence that the Certificates have received the ratings set forth on the cover of the Official Statement.
- (19) If required by the legal documents related to the 2002 Certificates, a defeasance opinion of Special Counsel.
- (20) A copy of the Continuing Disclosure Due Diligence Report.
- (21) If required by the legal documents related to the 2002 Certificates, a verification report of an independent certified public accountant that is acceptable to the Underwriter as to the sufficiency of funds set aside to defease and prepay the 2006 Certificates.
- (22) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Special Counsel may reasonably request to evidence compliance by the Corporation and the City with legal requirements, the truth and accuracy, as of the date of the Closing, of the representations of the City herein contained and of the Official Statement and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Agreement will be deemed to be in compliance with the provisions of this Purchase Agreement if, but only if, they are in form and substance satisfactory to the Underwriter. If the City is unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates contained in this Purchase Agreement or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates will be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement will

terminate and neither the Underwriter nor the City will be under further obligations hereunder, except that the respective obligations of the City and the Underwriter set forth in Section 10 of this Purchase Agreement will continue in full force and effect.

Section 8. Conditions to City's Obligations. The performance by the City of its obligations under this Purchase Agreement are conditioned upon: (i) the performance by the Underwriter of its obligations hereunder and (ii) receipt by the City of opinions addressed to the City, and receipt by the Underwriter of opinions addressed to the Underwriter, and the delivery of certificates being delivered on the date of the Closing by persons and entities other than the Corporation and the City.

Section 9. Termination Events. The Underwriter will have the right to terminate the Underwriter's obligations under this Purchase Agreement to purchase, to accept delivery of and to pay for the Certificates by notifying the City of its election to do so if, after the execution hereof and prior to the Closing, any of the following events occurs:

- (1) the marketability of the Certificates or the market price thereof, in the opinion of the Underwriter, has been materially and adversely affected by any decision issued by a court of the United States (including the United States Tax Court) or of the State of California, by any ruling or regulation (final, temporary or proposed) issued by or on behalf of the Department of the Treasury of the United States, the Internal Revenue Service, or other governmental agency of the United States, or any governmental agency of the State of California, or by a tentative decision or announcement by any member of the House Ways and Means Committee, the Senate Finance Committee, or the Conference Committee with respect to contemplated legislation or by legislation enacted by, pending in, or favorably reported to either the House of Representatives or either House of the Legislature of the State of California, or formally proposed to the Congress of the United States by the President of the United States or to the Legislature of the State of California by the Governor of the State of California in an executive communication, affecting the tax status of the Corporation or the City, its property or income, its bonds (including the Certificates) or the interest thereon or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended;
- (2) the United States becomes engaged in hostilities that result in a declaration of war or a national emergency, or any other outbreak of hostilities occurs, or a local, national or international calamity or crisis occurs, financial or otherwise, the effect of such outbreak, calamity or crisis being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Certificates;
- (3) there occurs a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, New York State or California State authorities;

- (4) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission is issued or made to the effect that the issuance, offering or sale of the Certificates is or would be in violation of any provision of the Securities Act of 1933, as then in effect, or of the Securities Exchange Act of 1934, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;
- (5) legislation is enacted by the House of Representatives or the Senate of the Congress of the United States of America, or a decision by a court of the United States of America is rendered, or a ruling or regulation by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter is made or proposed to the effect that the Certificates are not exempt from registration, qualification or other similar requirements of the Securities Act of 1933, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;
- (6) in the reasonable judgment of the Underwriter, the market price of the Certificates, or the market price generally of obligations of the general character of the Certificates, might be materially and adversely affected because additional material restrictions not in force as of the date hereof is imposed upon trading in securities generally by any governmental authority or by any national securities exchange;
- (7) the Comptroller of the Currency, The New York Stock Exchange, or other national securities exchange, or any governmental authority, imposes, as to the Certificates or obligations of the general character of the Certificates, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, or financial responsibility requirements of the Underwriter;
- (8) a general banking moratorium is established by federal, New York or State authorities;
- (9) any legislation, ordinance, rule or regulation is introduced in or be enacted by any governmental body, department or agency in the State or a decision of a court of competent jurisdiction within the State is rendered, which, in the opinion of the Underwriter, after consultation with the Corporation and the City, materially adversely affects the market price of the Certificates;
- (10) any federal or California court, authority or regulatory body takes action materially and adversely affecting the collection of Lease Payments under the Trust Agreement;
- (11) any withdrawal, downgrading or placement on credit watch negative of any underlying rating of any securities of the City by a national municipal bond rating agency that, in the opinion of the Underwriter, adversely affects the market price of the Certificates; or

- (12) an event occurs which in the reasonable opinion of the Underwriter makes untrue or misleading in any material respect any statement or information contained in the Official Statement (other than any information relating to the Underwriter).

Section 10. Payment of Expenses. (a) The Underwriter will be under no obligation to pay, and the City will pay the following expenses incident to the performance of the City's obligations hereunder:

- (i) the fees and disbursements of the Municipal Advisor, Special Counsel and Disclosure Counsel;
- (ii) the cost of printing and delivering the Certificates, the Preliminary Official Statement and the Official Statement (and any amendment or supplement prepared pursuant to Section 4 of this Purchase Agreement);
- (iii) the fees and disbursements of accountants, advisers and of any other experts or consultants retained by the Corporation or the City; and
- (iv) any other expenses and costs of the Corporation and the City incident to the performance of their respective obligations in connection with the authorization, execution and delivery of the Certificates, including out-of-pocket expenses and regulatory expenses, and any other expenses agreed to by the parties.

(b) The City will be under no obligation to pay, and the Underwriter will pay, any fees of the California Debt and Investment Advisory Commission, the cost of obtaining CUSIP numbers, the cost of preparation of any "blue sky" or legal investment memoranda and this Purchase Agreement; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Certificates (except those specifically enumerated in paragraph (a) of this section), including the fees and disbursements of Underwriter's Counsel (if any) and any advertising expenses.

Section 11. Notices. Any notice or other communication to be given to the Corporation or the City under this Purchase Agreement may be given by delivering the same in writing to the City at the addresses set forth on the first page of this Purchase Agreement, and any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to [Underwriter], [Underwriter address], Attention: _____.

Section 12. Survival of Representations, Warranties, Agreements. All of the City's representations, warranties and agreements contained in this Purchase Agreement will remain operative and in full force and effect regardless of: (a) any investigations made by or on behalf of the Underwriter; or (b) delivery of and payment for the Certificates pursuant to this Purchase Agreement. The agreements contained in this Section and in Section 10 will survive any termination of this Purchase Agreement.

Section 13. Benefit; No Assignment. This Purchase Agreement is made solely for the benefit of the City and the Underwriter (including its successors and assigns), and no other person will acquire or have any right hereunder or by virtue hereof. The rights and obligations created by this Purchase Agreement are not subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

Section 14. Severability. In the event that any provision of this Purchase Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision of this Purchase Agreement.

Section 15. Counterparts. This Purchase Agreement may be executed in any number of counterparts, all of which taken together will constitute one agreement, and any of the parties hereto may execute the Purchase Agreement by signing any such counterpart.

Section 16. Governing Law. This Purchase Agreement will be governed by the laws of the State of California.

Section 17. Effectiveness. This Purchase Agreement will become effective upon the execution of the acceptance hereof by an authorized officer of the City, and will be valid and enforceable as of the time of such acceptance.

Very truly yours,

[UNDERWRITER], as Underwriter

By: _____
Authorized Representative

Accepted:

CITY OF PALO ALTO

By: _____
Authorized Representative

Time of Execution: _____ Pacific Time

EXHIBIT A

\$ _____

CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable)

MATURITY SCHEDULE

Principal Payment Date <u>(May 1)</u>	<u>Principal</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
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T Term Bond.

C Priced to first par call on May 1, ____.

PREPAYMENT PROVISIONS

[to come]

EXHIBIT B

**CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)**

15c2-12 CERTIFICATE

The undersigned hereby states and certifies:

1. That he is the duly appointed, qualified and acting Administrative Services Director of the City of Palo Alto (the "City") and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same; and

2. That there has been delivered to the Underwriter of the captioned Certificates, a Preliminary Official Statement dated ____, 2018 for the captioned Certificates (including the cover page and all appendices thereto, the "Preliminary Official Statement"), which the City deems final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12.

Dated: ____, 2018

CITY OF PALO ALTO

By: _____
Administrative Services Director

EXHIBIT C

\$ _____
CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable)

CLOSING CERTIFICATE OF THE CORPORATION

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the Palo Alto Public Improvement Corporation (the "Corporation"), and is duly authorized to execute and deliver this Certificate in connection with the execution and delivery of the captioned certificates of participation (the "Certificates"), and further hereby certifies and reconfirms on behalf of the Corporation as follows:

(a) The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "State") and has all necessary power and authority to adopt its Resolution No. _____, adopted on April 16, 2018 (the "Corporation Resolution"), to enter into and perform its duties under the Trust Agreement, the Assignment Agreement, the Lease Agreement and the Property Lease (the "Corporation Agreements") and, when executed and delivered by the respective parties thereto, each Corporation Agreement will constitute a legal, valid and binding obligation of the Corporation enforceable in accordance with its respective terms.

(b) The Corporation Resolution was adopted by a majority of the members of the Board at a regular meeting duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution and, delivery of the Property Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement and due performance of the Corporation Agreements and the taking of any and all such action as may be required on the part of the Corporation to carry out, give effect to and consummate the transactions contemplated hereby. The Corporation Resolution is in full force and effect at the date hereof and has not been amended, modified or supplemented, except as agreed to by the Corporation and the Underwriter.

(c) By all necessary official action, the Corporation has duly authorized the preparation and delivery of, and the performance of its obligations under, the Corporation Agreements, and the consummation by it of all other transactions contemplated by the Corporation Resolution and the Corporation Agreements. When executed and delivered by their respective parties, the Corporation Agreements (assuming due authorization, execution and delivery by and enforceability against the other parties thereto) will be in full force and effect and each will constitute legal, valid and binding agreements or obligations of the Corporation, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors rights generally, the application of equitable principles, the exercise of judicial discretion and the limitations on legal remedies against public entities in the State.

(d) The statements and information related to the Corporation in the Official Statement for the Certificates are correct and complete in all material respects, do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make such statements therein, in the light of the circumstances under which they were made, not misleading.

(e) As of the date hereof, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the Corporation or, to the best knowledge of the Corporation, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the Corporation, or the titles of its members or officers; (ii) in any way question or affect the validity or enforceability of Corporation Agreements, or (iii) in any way question or affect the Corporation Agreements or the transactions contemplated by the Corporation Agreements or any other agreement or instrument to which the Corporation is a party relating to the Certificates.

(f) There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the Corporation required for the execution and delivery of the Corporation Agreements or the consummation by the Corporation of the transactions contemplated by the Corporation Agreements.

(g) Any certificate signed by any official of the Corporation authorized to do so will be deemed a representation and warranty by the Corporation to the Underwriter as to the statements made therein.

(h) The instances in which the Corporation has previously failed to comply in all material respects with any undertakings under Rule 15c2-12 during the past five years are described in the Official Statement.

(i) The Corporation has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date of the Closing.

(j) Subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the Corporation, whether or not arising in the ordinary course of the operations of the Corporation, as described in the Official Statement.

Capitalized terms used but not defined herein have the meanings given such terms in the Purchase Agreement dated _____, 2018, by and between the City and _____, related to the Certificates.

Dated: _____, 2018.

**PALO ALTO PUBLIC IMPROVEMENT
CORPORATION**

By: _____
Authorized Officer

EXHIBIT D

\$ _____
CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)

CLOSING CERTIFICATE OF THE CITY

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Palo Alto (the "City"), and is duly authorized to execute and deliver this Certificate in connection with the execution and delivery of the captioned certificates of participation (the "Certificates"), and further hereby certifies and reconfirms on behalf of the City as follows:

(a) The representations, warranties and covenants of the City contained in the Purchase Agreement dated _____, 2018, between the City and [Underwriter], as underwriter (the "Purchase Agreement") are true and correct and in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing.

(b) The City Resolution is in full force and effect at the date of the Closing and has not been amended, modified or supplemented, except as agreed to by the City and the Underwriter.

(c) The City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date of the Closing.

(d) Subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising in the ordinary course of operations, as described in the Official Statement.

(e) The Official Statement (other than any information it contains concerning the Depository Trust Company and the book-entry system for the Certificates or provided by the Underwriter) does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

Capitalized terms used but not defined herein have the meanings given in the Purchase Agreement related to the Certificates.

Dated: _____, 2018.

CITY OF PALO ALTO

By: _____
Authorized Officer

EXHIBIT E

\$ _____
CITY OF PALO ALTO
2018 Certificates of Participation
(Golf Course Improvement Project; 2002B Refinancing)

CLOSING CERTIFICATE OF THE TRUSTEE

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of U.S. Bank National Association (the "Trustee"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the Trustee as follows:

(a) The Trustee has all necessary power to enter into the Trust Agreement and the Assignment Agreement; and

(b) The Trust Agreement and the Assignment Agreement have been duly authorized, executed and delivered by the Trustee and the Trust Agreement and the Assignment Agreement constitute the legal, valid and binding obligations of the Trustee enforceable in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(c) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Trustee or the performance by the Trustee of its duties and obligations under the Trust Agreement and the Assignment Agreement ;

(d) The execution and delivery by the Trustee of the Trust Agreement and the Assignment Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(e) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Trust Agreement and the Assignment Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligations thereunder.

Capitalized terms used but not defined herein have the meanings given such terms in the Purchase Agreement dated _____, 2018, by and between the City and Stifel Nicolaus & Company, Incorporated, related to the Certificates.

Dated: _____, 2018.

U.S. BANK NATIONAL ASSOCIATION,
as trustee

By: _____
Authorized Officer

Attachment A-6

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2018

NEW ISSUE—BOOK-ENTRY ONLY

RATING:

S&P: “ ”

See “RATING” herein.

In the opinion of Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes. The interest respect to the Certificates is not intended by the City to be excluded from gross income for federal income tax purposes. See “TAX MATTERS.”



\$ _____ *

CITY OF PALO ALTO

2018 CERTIFICATES OF PARTICIPATION

(Golf Course Improvement Project; 2002B Refinancing)

(Federally Taxable)

(Green Bonds)

Dated: Date of Delivery

Due: May 1, as shown on the inside cover

The \$ _____ * Palo Alto 2018 Certificates of Participation (Golf Course Improvement; 2002B Refinancing) (Federally Taxable) (the “Certificates”) are being sold to provide funds to (a) finance the costs of the renovation of the Palo Alto Municipal Golf Course, (b) refund the outstanding City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable), and (c) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

The Certificates will evidence direct, undivided fractional interests of the owners thereof in Lease Payments (as defined herein) to be made by the City to the Palo Alto Public Improvement Corporation (the “Corporation”) for the use and occupancy of the Property (as defined herein) under and pursuant to a Lease Agreement, dated as of May 1, 2018, by and between the Corporation and the City (the “Lease Agreement”). The Corporation will assign its right to receive Lease Payments from the City under the Lease Agreement and its right to enforce payment of the Lease Payments when due or otherwise protect its interest in the event of a default by the City thereunder to U.S. Bank National Association, San Francisco, California, as trustee (the “Trustee”), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2018, by and among the City, the Corporation the Trustee, in book-entry form only, and will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company (referred to herein as “DTC”). Purchasers of the Certificates (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each May 1 and November 1, commencing November 1, 2018. The Certificates may be executed and delivered in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. See “THE CERTIFICATES—Book-Entry-Only System” herein.

The Certificates are subject to optional and mandatory redemption. See “THE CERTIFICATES—Redemption” herein.

The City will covenant in the Lease Agreement to make all Lease Payments due under the Lease Agreement, subject to abatement during any period in which by reason of damage or destruction of the Property, or by reason of eminent domain proceedings with respect to the Property, there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The City will covenant in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE DISTRICT OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS OR RESTRICTION OR AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

MATURITY SCHEDULE

SEE THE INSIDE COVER

The cover page contains certain information for general reference only. It is *not* a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriter subject to approval by Jones Hall, A Professional Law Corporation, San Francisco, California, as Special Counsel. Certain matters will be passed upon for the City by the City Attorney and by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. Certain matters will be passed upon for the Underwriter by _____. It is anticipated that the Certificates will be available for through the facilities of DTC on or about May __, 2018.

[UNDERWRITER LOGO]

Dated: April __, 2018

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$ _____ *

CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable)
(Green Bonds)

\$ _____ **Serial Certificates**

CUSIP[†] Prefix: _____

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] Suffix	_____
---------------------	---------------------	------------------	-------	------------------------------	-------

\$ _____ % **Term Certificates** Maturing May 1, ____; Price: _____, to Yield ____%—CUSIP[†]: _____

*Preliminary, subject to change.

[†] Copyright 2018, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by S&P Capital IQ. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the Certificates. Neither the City nor the Underwriter is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Certificates or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

CITY OF PALO ALTO
250 Hamilton Avenue
Palo Alto, California 94301
<http://www.cityofpaloalto.org/>

CITY COUNCIL MEMBERS

Liz Kniss, *Mayor*
Eric Filseth, *Vice Mayor*
Tom DuBois, *Councilmember*
Adrian Fine, *Councilmember*
Karen Holman, *Councilmember*
Lydia Kou, *Councilmember*
Gregory Scharff, *Councilmember*
Greg Tanaka, *Councilmember*
Cory Wolbach, *Councilmember*

CITY OFFICIALS

James Keene, *City Manager*
Edward K. Shikada, *Assistant City Manager*
Robert De Geus, *Deputy City Manager*
Lalo Perez, *Chief Financial Officer/Administrative Services Director*
Tarun Narayan, *Manager of Treasury, Debt & Investments*
Kristen O'Kane, *Assistant Director of Community Services*
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Harriet Richardson, *City Auditor*
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Beth Minor, *City Clerk*

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San Francisco, California

Disclosure Counsel

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Larkspur, California

Financial Advisor

PFM Financial Advisors LLC
San Francisco, California

Trustee and Escrow Bank

U.S. Bank National Association
Los Angeles, California

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the City with respect to the Certificates that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. 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 Certificates by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been obtained from the City and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Property Lease, or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Director Finance for further information. See "INTRODUCTION—Other Information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way. Neither the City nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

The execution, sale and delivery of the Certificates has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is **not** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates.

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CITY OF PALO ALTO LOCATION MAP



\$ _____ *

CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable)
(Green Bonds)

INTRODUCTION

This introduction does not purport to be complete and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the captioned Certificates. Potential investors are encouraged to read this entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement and in APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.

General

This Official Statement, including the cover page, the inside cover page and appendices hereto, is provided to furnish information in connection with the execution, sale and delivery of \$ _____* Palo Alto 2018 Certificates of Participation (Golf Course Improvement; 2002B Refinancing) (Federally Taxable) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2018 (the “Trust Agreement”), by and among the City of Palo Alto (the “City”), the Palo Alto Public Improvement Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”).

The proceeds of the Certificates will provide funds to (a) finance a the costs of the costs of the renovation of the Palo Alto Municipal Golf Course owned by the City (the “Golf Course Project”), (b) refinance the City’s obligations with respect to, and provide for the refunding of, the outstanding City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) (the “2002 Certificates”), (c) fund capitalized interest, and (d) pay a portion of delivery costs incurred in connection with the execution, delivery and sale of the Certificates. See “PLAN OF FINANCING.”

The City will lease certain existing property (the “Leased Property”) to the Corporation pursuant to a Property Lease, dated as of May 1, 2018 (the “Property Lease”). The Corporation will lease the Leased Property back to the City pursuant to a Lease Agreement, dated as of May 1, 2018 (the “Lease Agreement”). The Certificates are payable solely from and secured by the lease payments (the “Lease Payments”) to be made by the City to the Corporation pursuant to the Lease Agreement. See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “THE PROPERTY.”

Interest with respect to the Certificates is payable on May 1 and November 1 of each year, commencing November 1, 2018. The Certificates will mature in the amounts and on the dates and be payable at the interest rates shown on the inside cover of this Official Statement. See “THE CERTIFICATES.”

* Preliminary, subject to change.

The Certificates will be delivered in fully registered form only, in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository for the Certificates and all payments due with respect to the Certificates will be made to Cede & Co. Ownership interests in the Certificates may be purchased only in book-entry form. See “THE CERTIFICATES—Book-Entry Only System” and APPENDIX F—DTC’S BOOK-ENTRY ONLY SYSTEM.

Source of Payment for the Certificates

The Certificates represent direct, undivided interests of the Owners thereof in the Lease Payments to be paid by the City to the Corporation pursuant to the Lease Agreement. Lease Payments are calculated to be sufficient to permit the payment of the principal and interest with respect to the Certificates when due. The Lease Payments are payable by the City from its general fund for the right to use and possess the Leased Property. The Lease Payments are subject to abatement during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The City will covenant under the Lease Agreement to take such action as necessary to include the Lease Payments in its annual budget and to make all necessary appropriations therefor (subject to abatement under certain circumstances described in the Lease Agreement). Pursuant to an Assignment Agreement, dated as of May 1, 2018 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, certain of its rights under the Lease Agreement, including its right to receive Lease Payments from the City for the purpose of securing the payment of principal and interest with respect to the Certificates. See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “RISK FACTORS.”

A reserve fund will *not* be funded for the Certificates.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

The City

The City is located in northern Santa Clara County (the “County”), approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. The City shares its borders with East Palo Alto, Mountain View, Los Altos, Los Altos Hills, Stanford, Portola Valley, and Menlo Park. See “THE CITY,” “CITY FINANCIAL INFORMATION” and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

Continuing Disclosure

The City will covenant in a Continuing Disclosure Certificate to prepare and deliver an annual report to the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access system. See “CONTINUING DISCLOSURE” and APPENDIX G—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Summaries of Documents

This Official Statement contains descriptions of the Certificates, the Trust Agreement, the Property Lease, the Lease Agreement, the Assignment Agreement and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Copies of the various documents described herein are available for inspection during business hours at the corporate trust office of the Trustee at 700 South Flower Street, Suite 500, Los Angeles, CA 90017.

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, the information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

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

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of the proceeds from the sale of the Certificates and other moneys:

Sources

Par Amount of the Certificates

Plus: Original Issue Premium

Less: Underwriter's Discount

Plus: Released 2002 Reserve Fund

Total Sources

Uses

Deposit to the Golf Course Project Fund ⁽¹⁾

Deposit to 2002B Escrow Fund ⁽²⁾

Deposit to Lease Payment Fund ⁽³⁾

Deposit to Delivery Costs Fund ⁽⁴⁾

Total Uses

⁽¹⁾ Amounts deposited in the Golf Course Project Fund will be used to finance the Golf Course Project. See PLAN OF FINANCING—Golf Course Project.

⁽²⁾ Amounts deposited in the Escrow Fund will be used to defease and provide for the prepayment of the 2002B Certificates. See PLAN OF FINANCING—Refunding of the 2002B Certificates.

⁽³⁾ Interest is capitalized with respect to the Certificates through _____.

⁽⁴⁾ Delivery Costs include fees and expenses of the financial advisor, special counsel, disclosure counsel and the Trustee, printing expenses, rating fees, title insurance and other costs.

PLAN OF FINANCING

Proceeds of the Certificates will be used to (a) finance the costs of the Golf Course Project, (b) provide for the defeasance and prepayment of the 2002B Certificates, and (c) pay a portion of the delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

Golf Course Project. Transformation of the Palo Alto Municipal Golf Course into the Baylands Golf Link has been achieved with a full course redesign by architect Forrest Richardson and construction by Wadsworth Golf. The project included renovation of all 18 course holes, renovation of practice chipping and putting greens, addition of a short game practice area, and addition of a youth learning area. The course has changed from a flat and linear layout to a links style course with some elevation changes providing views of the adjacent Baylands Preserve and San Francisco Bay. The renovation project included all new irrigation lines, a new irrigation system, and a pump station. Course construction is complete and the course is being prepared for a grand opening towards the end of Spring 2018.

Design and construction of the new course incorporated the following green environmental elements:

- Transition from using a mix of potable and recycled water on the old course to using mostly recycled water on the new course by selecting paspalum, a salt tolerant grass.
- Paspalum goes dormant late fall and into early spring in the region, further reducing the need for irrigation.
- Reduction of maintained turf by 40% in comparison to the old course through course design.
- Most of this turf reduction is attributed to conversion from turf to native vegetation and wetlands.
- In total, there are 55 acres of vegetation and wetlands on a 141 acre golf course.
- 7.4 acres of the previous golf course will be converted to in-stream marshland terrace habitat and used for flood protection by an adjacent levee expansion project.

Refunding of the 2002 Certificates. A portion of the net proceeds of the Certificates will be deposited in an escrow fund (the “Escrow Fund”) established under the Trust Agreement. used to refund, on a current basis, the 2002B Certificates. All such amounts will be held in cash, uninvested, and will be applied to the prepayment of the 2002B Certificates on _____, 2018, at a prepayment price equal to 100% of the principal amount of the 2002B Certificates, plus accrued interest to the date of prepayment.

The 2002B Certificates to be refunded are shown in the following table:

<u>Maturity Date</u>	<u>Amount Refunded</u>	<u>Interest Rate</u>	<u>Call Date</u>	<u>Call Price</u>	<u>CUSIP Number[†]</u>
3/1/22	\$975,000	6.50%	___/___/18	100.000%	697364 DS3

Green Bonds

The Certificates are being delivered as “Green Bonds” due to the intended use of the proceeds. The designation of the Certificates as Green Bonds is intended to allow investors the opportunity to invest directly in obligations that finance environmentally beneficial projects. The term “Green Bonds” is not defined in the Trust Agreement, and its use in this Official Statement is for identification purposes only and is not intended to provide or imply that the holders of the Certificates are entitled to any additional terms or security in addition to those provided in the Trust Agreement.

Use of the proceeds of the Certificates will be tracked by the City. The City will post updates regarding the use of proceeds of the Certificates with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, currently located at www.emma.msrb.org (which website is not incorporated into this Official Statement by reference), annually, and will post a final list of projects funded once all proceeds of the Certificates have been spent.

Once all proceeds of the Certificates have been spent, no further updates regarding the project will be provided or filed.

[†]Copyright 2018, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services Bureau, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City or the Underwriter and are included solely for the convenience of the holders of the Certificates.

THE PROPERTY

Pursuant to the Property Lease, the City will lease the Leased Property to the Corporation. Pursuant to the Lease Agreement, the Corporation will, in turn, lease the Leased Property back to the City. See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Property Lease and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The Leased Property consists of the Palo Alto University Fire Station 1 (301 Alma Street, Palo Alto, CA 94301), a two story, 10,295 square foot masonry construction with wood roof building constructed in 1968. The facility was renovated in 1993 which included the addition of female dorms. In 2004, another renovation occurred that included seismic upgrade. The seismic upgrade brought the station into conformance with the intent of the essential facilities requirements of the Uniform Building Code. This allowed the station to remain operational immediately following an earthquake, even though it may suffer some damage. The critical parts of the seismic upgrade included reinforcement of the apparatus bay door openings to facilitate the operation of the doors so that equipment can be deployed at the post-event stage. Work included accessibility upgrades, and kitchen and bathroom renovations

For a description of certain terms of the Lease Agreement see “SOURCE OF PAYMENT FOR THE CERTIFICATES” and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Pursuant to the Lease Agreement, the City may substitute the Leased Property, in whole or in part, by other properties, upon the satisfaction of certain conditions. For more information regarding the substitution of property see “SOURCE OF PAYMENT FOR THE CERTIFICATES—Substitution or Release of Site or Facility” and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The City has not granted any security interest in the Leased Property for the benefit of the Certificates and there is no remedy of foreclosure on the Leased Property upon the occurrence of an Event of Default under the Lease Agreement. For a discussion of remedies upon an Event of Default under the Lease Agreement, see “RISK FACTORS—Limitations on Remedies.”

DEBT SERVICE SCHEDULE

The following table shows the scheduled debt service for the Certificates:

Interest Payment Date ⁽¹⁾	Principal	Interest	Total
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⁽¹⁾ Principal and interest payments with respect to the Certificates on each May 1 and November 1 are derived from Lease Payments made by the City on the preceding April 15 and October 15.

THE CERTIFICATES

General

The Certificates will be executed and delivered in the aggregate principal amount and will mature on the dates and interest with respect thereto will be payable at the rates per annum as set forth on the cover of this Official Statement. The Certificates will be delivered in the form of fully registered Certificates without coupons in the denomination of \$5,000 or any integral multiple thereof. Interest with respect to the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on May 1 and November 1 of each year, commencing November 1, 2018 (each an “Interest Payment Date”), until maturity or earlier prepayment thereof. The Certificates will be initially executed, delivered and registered in the name of “Cede & Co.” as nominee of DTC and will be evidenced by one Certificate maturing on each of the maturity dates in a denomination corresponding to the total principal therein designated to mature on such date. See “THE CERTIFICATES—Book-Entry Only System.”

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which

event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is executed after a Regular Record Date (i.e., the close of business on the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a Business Day) and before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (iii) it is executed on or before October 15, 2018, in which event interest with respect thereto will be payable from its dated date; *provided, however*, that if, as of the date of execution of any Certificate, interest is in default with respect to any Outstanding Certificates, interest represented by such Certificate shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Certificates. Payment of defaulted interest shall be paid by check mailed to the Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners not less than ten (10) days prior to such special record date.

Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request shall remain in effect until rescinded in writing by the Owner. The principal and prepayment price with respect to the Certificates at maturity or upon prior prepayment shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

Prepayment

Optional Prepayment. The Certificates maturing on or before May 1, 20____, are not subject to optional prepayment prior to maturity. The Certificates maturing on and after May 1, 20____, are subject to optional prepayment in whole or in part on any date in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of prepayment, in *pro rata* among maturities) and by lot within a maturity, on or after May 1, 20____, at a prepayment price equal to the principal amount of the Certificates to be redeemed, together with accrued interest, without premium, to the date fixed for prepayment, from the proceeds of the optional prepayment of Lease Payments made by the City pursuant to the Lease Agreement.

Mandatory Sinking Fund Prepayment. The Certificates maturing on May 1, _____, are subject to mandatory prepayment in part on May 1, _____, and on each May 1 thereafter, to and including May 1, _____, from the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date (subject to abatement, as set forth in the Lease Agreement), at a prepayment price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for prepayment, without premium, as follows:

Year (May 1)	Principal Amount of Certificates to be Redeemed

†Maturity.

Extraordinary Prepayment from Net Proceeds of Insurance and Condemnation. The Certificates are also subject to prepayment on any date, in whole or in part, from the net proceeds of insurance or condemnation with respect to the Leased Property, which Net Proceeds are deposited in the accounts within the Lease Payment Fund on a *pro rata* basis and credited towards the prepayment of the Lease Payments made by the City pursuant to the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever provision is made for the prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment from the Outstanding Certificates not previously called for prepayment, among maturities on a *pro rata* basis in integral multiples of \$5,000 and by lot within a maturity in any manner deemed appropriate by the Trustee. For the purposes of such selection, Certificates shall be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee shall promptly notify the City and the Corporation in writing of the Certificates so selected for prepayment.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) that the Certificates or a designated portion thereof are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, and (d) that the City has the right to rescind the notice as provided below. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate, the principal together with interest accrued to said date, and that from and after such date interest represented thereby shall cease to accrue and be payable.

Notice of such prepayment shall be mailed by first class mail to the respective Owners of Certificates designated for prepayment at their addresses appearing on the Registration Books, at least thirty (30) days but not more than forty-five (45) days prior to the prepayment date, which notice shall, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal thereof which is to be prepaid; provided that neither failure to receive such notice so mailed nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

The City has the right to rescind any notice of the optional prepayment of Certificates by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of optional prepayment shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall mail notice of such rescission of prepayment to the respective Owners of the Certificates designated for prepayment at their

respective addresses appearing on the Registration Books, and to DTC and the Municipal Securities Rulemaking Board.

Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

Effect of Notice of Prepayment. Notice having been given as aforesaid, and moneys for the prepayment (including the interest to the applicable date of prepayment and including any applicable premium), having been set aside in the Lease Payment Fund, the Certificates shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Corporate Trust Office of the Trustee, said Certificates shall be paid at the unpaid principal amount (or applicable portion thereof) with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest represented by said Certificates shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid.

Transfer and Exchange of Certificates

The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity and aggregate principal amount of the same series, in any authorized denominations.

Certificates may be exchanged at the Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity and the same series. The City shall pay any costs of the Trustee incurred in connection with such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Book-Entry System

The Certificates will be initially executed, delivered and registered as one fully registered certificate for each maturity, without coupons, in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive physical certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. So long as DTC's book-entry system is in effect with respect to the Certificates, notices to Owners of the Certificates by the City or the Trustee will be sent to DTC.

Notices and communication by DTC to its participants, and then to the beneficial owners of the Certificates, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See APPENDIX F—DTC’S BOOK-ENTRY SYSTEM.

In the event that such book-entry system is discontinued with respect to the Certificates, the City will cause the Trustee to execute and deliver replacements in the form of registered certificates and, thereafter, the Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request will remain in effect until rescinded in writing by the Owner. The principal and prepayment price with respect to the Certificates at maturity or upon prior prepayment shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided interest in the Lease Payments. Pursuant to the Lease Agreement, the City will lease the Leased Property from the Corporation and agree to make Lease Payments. See “THE PROPERTY.” Upon satisfaction of certain conditions set forth in the Lease Agreement, the City may substitute the Leased Property with other properties. See “Substitution or Release of Site or Facility” below.

As security for the Certificates, the Corporation will assign to the Trustee for the payment of principal and interest with respect to the Certificates, the Corporation’s rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Lease Payments to be made by the City under the Lease Agreement. The Lease Payments are designed to be sufficient, in both time and amount, to pay when due, the principal and interest with respect to the Certificates. The Lease Payments are payable by the City from any source of legally available funds.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Lease Payments; Covenant to Appropriate

Pursuant to the Lease Agreement, the City has agreed to make Lease Payments for the lease of the Leased Property which are calculated to be sufficient to pay principal and interest due with respect to the Certificates. Lease Payments will be made by the City to the Trustee on March 15 and September 15 in each year, in advance of the corresponding April 1 and October 1 Interest Payment Dates. The City will also pay as additional payments ("Additional Payments"), amounts required for the payment of all costs and expenses incurred by the City to comply with the provisions of the Trust Agreement and the Lease Agreement or in connection with the execution and delivery of the Certificates. The City has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments in its annual budget and to make the necessary annual appropriations for all such payments. Under certain circumstances described under the Lease Agreement, however, Lease Payments are subject to abatement during periods of substantial interference with the City's use and occupancy of the Leased Property or any portion thereof. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Abatement."

Insurance

The City is required to keep or cause to be kept casualty insurance against loss or damage by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, in an amount at least equal to one hundred percent (100%) of the replacement cost of the Leased Property. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The City is not required by the Lease Agreement to maintain earthquake coverage with respect to the Leased Property and the City does not expect to purchase such coverage.

To insure against loss of rental income caused by perils mentioned above, the City is required to maintain, or cause to be maintained throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards described above in an amount equal to two times the maximum annual Lease Payments.

Public liability and property damage insurance coverage is required in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The net proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

The City shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date, a CLTA title insurance policy in the amount of not less than the principal amount of the Certificates, insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances.

See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Insurance.

Abatement

Pursuant to the Lease Agreement, the amount of Lease Payments will be abated, during any period in which by reason of damage or destruction (other than by eminent domain which is otherwise provided for) there is substantial interference with the use and occupancy by the City of the Leased Property or the Leased Property or any portion thereof. The amount of such abatement shall be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. However, notwithstanding any other provisions of the Lease Agreement, there shall be no abatement of Lease Payments to the extent that the proceeds of an eminent domain or insurance award are available to pay Lease Payments, or to the extent that moneys are available in the Lease Payment Fund, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments. See “SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance,” APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Insurance and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Abatement of Lease Payments in the Event of Damage or Destruction.

Eminent Domain

Pursuant to the Lease Agreement, if the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property or any part thereof shall be taken temporarily, under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants to contest any eminent domain award which is insufficient to either: (i) prepay the Certificates in whole, if all of the Leased Property is condemned; or (ii) prepay a pro rata share of Certificates, in the event that less than all of the Leased Property is condemned.

No Reserve Fund

A reserve fund will not be funded for the Certificates.

Optional Prepayment

Pursuant to the Lease Agreement, the City has an option to prepay the principal components of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments, or in part, in a prepayment amount equal to the principal amount of Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, together with the premium set forth for the prepayment of Certificates. See "THE CERTIFICATES—Prepayment—Optional Prepayment."

Said option may be exercised with respect to Lease Payments due on and after April 15, 20_____, in whole or in part on any date, commencing April 15, 20_____. In the event of prepayment in part, the partial prepayment will be applied against Lease Payments in such order of payment date as will be selected by the City. Lease Payments due after any such partial prepayment will be in the amounts set forth in a revised Lease Payment schedule which will be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. The Trustee agrees to notify the Corporation in the event of any prepayment of Lease Payments, as provided in the Trust Agreement.

Mandatory Prepayment from Net Proceeds of Insurance, Title Insurance or Eminent Domain

The City may exercise its option to prepay the principal component of the Lease Payments, in whole or in part, on any date on or after January 15, _____, by paying a prepayment price equal to the aggregate or a portion of the unpaid principal components of the remaining Lease Payments, together with the interest component of the Lease Payment required to be paid on such date. The City shall notify the Corporation and the Trustee as to which of the Lease Payments it wishes to prepay. Such prepayment price shall be deposited by the Trustee in the applicable account within the Lease Payment Fund to be applied to the prepayment of the Certificates pursuant to the Trust Agreement. The City shall give the Trustee notice of its intention to exercise its option not less than forty-five (45) days in advance of the date of exercise. In the event the Lease Payments have been fully paid, and the City prepays the entire unpaid principal component of the Lease Payments in whole, the City will be deemed to have purchased the Leased Property and title to the Leased Property shall thereupon vest in the City, free and clear of any encumbrance created by the Lease Agreement. See "THE CERTIFICATES—Prepayment—Extraordinary Prepayment from Net Proceeds of Insurance and Condemnation."

Substitution or Removal of Leased Property

Substitution of Leased Property. The City shall have, and is granted, the option at any time and from time to time during the term of the Lease Agreement, to substitute other land, facilities, improvements or other property (a "Substitute Property") for the Leased Property or any portion thereof (a "Former Property"), provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution:

(a) The City shall notify S&P in writing of such substitution, which notice shall contain the certification that all conditions for such substitution, as set forth in the Lease Agreement, are met with respect to such substitution;

(b) The City shall take all actions and shall execute all documents required to subject such Substitute Property to the terms and provisions of the Lease Agreement, including the filing with the Corporation and the Trustee of an amendment to the Lease Agreement which adds thereto a

description of such Substitute Property and deletes therefrom the description of such Former Property, and including the recordation of the Lease Agreement or a memorandum hereof with respect to such Substitute Property in the office of the Santa Clara County Recorder;

(c) The City shall certify in writing to the Corporation and the Trustee, such certification to be accompanied by an appraisal prepared by an appraiser who is independent of the City, that the estimated fair market value of such Substitute Property is at least equal to the aggregate principal components of the unpaid Lease Payments;

(d) The City shall certify in writing to the Corporation and the Trustee that such Substitute Property serves the public purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California;

(e) The City shall certify in writing to the Corporation and the Trustee that the estimated useful life of such Substitute Property at least extends to the date on which the final Lease Payment becomes due and payable hereunder;

(f) The City shall obtain a CLTA policy of title insurance meeting the requirements of the Lease Agreement with respect to such Substitute Property; and

(g) The Substitute Property shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement.

From and after the date on which all of the foregoing conditions precedent to such substitution are satisfied, the term of the Lease Agreement shall cease with respect to the Former Property and shall be continued with respect to the Substitute Property, and all references herein to the Former Property shall apply with full force and effect to the Substitute Property. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

Removal of Property from Leased Property. The City shall have, and is granted, the option at any time and from time to time during the term of the Lease Agreement, to remove any property from the description of the Leased Property, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such removal:

(a) The City shall notify S&P in writing of such removal, which notice shall contain the certification that all conditions for such removal, as set forth in the Lease Agreement, are met with respect to such removal;

(b) The City shall file with the Corporation and the Trustee an amendment to the which notice shall contain the certification that all conditions for such substitution, as set forth in the Lease Agreement, are met with respect to such substitution which deletes therefrom the description of the property to be removed;

(c) The City shall certify in writing to the Corporation and the Trustee, such certification to be accompanied by an appraisal prepared by an appraiser who is independent of the City, that the estimated fair market value of the Leased Property that will remain following such removal is at

least equal to the aggregate principal components of the unpaid Lease Payments, and that the useful life of the Leased Property is not less than the final payment date of the unpaid Lease Payments.

From and after the date on which all of the foregoing conditions precedent to such removal are satisfied, the term of the Lease shall cease with respect to the property which is so removed. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such removal.

Amendment of Lease Agreement

Except as provided below, without the prior written consent of the Trustee, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement, excepting only such alteration or modification as may be permitted by the Trust Agreement.

In addition, the Lease Agreement may be amended to obligate the City to pay additional amounts of rental thereunder for the use and occupancy of the Leased Property or any portion thereof, but only if (a) such additional amounts of rental do not cause the total rental payments made by the City under the Lease Agreement to exceed the fair rental value of the Leased Property, (b) the City shall have obtained and filed with the Trustee and the Corporation an appraisal of the Leased Property showing that the estimated fair market value thereof is not less than the aggregate unpaid principal components of such additional amount of rental plus the existing aggregate unpaid principal components of the Lease Payments, (c) such additional amounts of rental shall be pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the completion of public facilities and (d) the City shall send notification of the additional financing to the rating agency then rating the Certificates.

THE CITY

The City is located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City is considered the birthplace of the high technology industry and a center of the Silicon Valley. Stanford University covers 700-acre area in the City, and the City is home to high-tech leaders such as Hewlett-Packard, SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute and Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veteran Affairs' Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The nine City Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first City Council meeting in January. The Mayor presides over all City Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

See APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for a general description of the City as well as certain demographic and statistical information.

CITY FINANCIAL INFORMATION

Financial Statements and Budgetary Process

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Audited Financial Statements. The City retained the firm of Macias Gini & O'Connell LLP (MGO), Walnut Creek, California (the "City's Auditor"), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2017. The audited financial statements for fiscal year ended June 30 2017, are included in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017. The City has not requested, and the City's Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

The City Council adopts a biennial budget with appropriations for all City funds prior to the beginning of the fiscal year, which begins on July 1 of each year. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City's operating budget is at the fund level. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within a budget program and within the same fund. All other appropriation changes require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

The following table shows the City's audited general fund balance sheet for fiscal years 2013-14 through 2016-17 and the City's projected totals from its' adopted budget for fiscal year 2017-18.

Table 1
General Fund Balance Sheet
Fiscal Years 2013-14 through 2016-17
(Amounts in Thousands)

	FY2013-14 Audited	FY2014-15 Audited	FY2015-16 Audited	FY2016-17 Audited
ASSETS				
Cash and Investments	\$ 42,013	\$ 54,730	\$ 53,113	\$ 47,779
Accounts and Intergovernmental Receivables	8,761	10,197	15,676	17,418
Interest Receivable	642	525	640	738
Notes and Loans Receivable	900	868	513	496
Prepaid Items	352	66	-	-
Advance to Other Funds	935	1,695	2,211	2,915
Inventory of Materials and Supplies	4,001	3,667	4,364	4,298
Total Assets	57,604	71,748	76,517	73,644
LIABILITIES				
Accounts Payable and Accruals	4,094	3,647	3,832	4,984
Accrued Salaries and Benefits	2,852	3,114	3,859	1,466
Unearned Revenue	2,348	2,517	1,895	4,087
Total Liabilities	9,294	9,278	9,586	10,537
FUND BALANCES				
Nonspendable:				
Notes and Loans Receivable	900	868	513	496
Prepaid Items	352	66	-	-
Inventories	4,001	3,667	4,364	4,298
Advances to Other Funds	935	1,695	2,211	2,915
Assigned for:				
Unrealized Gain on Investments	672	671	2,066	-
Other General Governmental Purposes	4,760	5,605	6,195	6,150
Reappropriations	1,607	1,700	-	1,130
Unassigned for:				
Budget Stabilization	35,083	48,198	51,582	48,118
Total Fund Balances	48,310	62,470	66,931	63,107
Total Liabilities and Fund Balances	57,604	71,748	76,517	73,644

Sources: City of Palo Alto 2013-14 through 2016-17 CAFRs and City of Palo Alto 2017-18 Budget, adopted 2017.

The following table shows the City's audited general fund revenues, expenditures and changes in fund balances for fiscal years 2013-14 through 2016-17 and the City's adopted budget for fiscal year 2017-18.

Table 2
General Fund Statement of Revenue, Expenditures and Changes in Fund Balances
Fiscal Years 2012-13 through 2016-17
(Dollars in Thousands)

	FY2013-14 Audited	FY2014-15 Audited	FY2015-16 Audited	FY2016-17 Audited	FY2017-18 Budget
REVENUES					
Property Tax	\$ 30,587	\$ 34,117	\$ 36,607	\$ 39,381	<u>\$41,927</u>
Sales Tax	29,424	29,675	30,018	29,923	<u>31,458</u>
Utility Users Tax	11,008	10,861	12,469	14,240	<u>13,867</u>
Transient Occupancy Tax	12,255	16,699	22,366	23,477	<u>25,143</u>
Documentary Transfer Tax	7,811	10,384	6,266	7,491	<u>6,930</u>
Other Taxes and Fines	2,136	1,900	2,238	2,167	<u>2,060</u>
Charges for Services	23,962	25,973	23,910	22,267	<u>26,497</u>
From Other Agencies	768	3,712	3,190	2,758	<u>11,764</u>
Permits and Licenses	6,950	7,056	7,912	7,437	<u>8,837</u>
Investment Earnings	1,327	1,177	2,494	(1,193)	<u>1,024</u>
Rental Income	14,215	14,911	15,769	15,692	<u>15,575</u>
Other Revenue	1,240	1,018	2,591	760	<u>1,169</u>
Total Revenues	<u>141,683</u>	<u>157,483</u>	<u>165,830</u>	<u>164,400</u>	<u>186,251</u>
EXPENDITURES					
City Council	382	270	330	316	<u>500</u>
City Manager	2,125	2,112	2,567	1,896	<u>3,158</u>
City Attorney	1,793	1,830	2,212	2,049	<u>3,356</u>
City Clerk	635	679	488	724	<u>1,374</u>
City Auditor	487	409	313	822	<u>1,301</u>
Administrative Services	3,033	3,746	3,545	4,975	<u>7,551</u>
Human Relations	1,329	1,570	1,843	2,194	<u>3,757</u>
Public Works	11,548	11,440	12,315	13,578	<u>17,005</u>
Planning and Community Environment	13,209	7,369	9,059	9,054	<u>8,452</u>
Development Services	-	11,152	10,643	10,908	<u>12,540</u>
Police ⁽¹⁾	61,742	61,226	35,247	39,597	<u>42,333</u>
Fire ⁽¹⁾	-(1)	-(1)	28,312	31,419	<u>31,774</u>
Community Services	22,511	23,045	24,280	25,192	<u>27,560</u>
Library	7,340	7,980	7,960	8,953	<u>9,447</u>
Non-Departmental	7,984	5,578	5,680	5,906	<u>8,435</u>
Capital Outlay	-	-	-	-	-
Debt Service - Principal	374	383	395	406	<u>416</u>
Debt Service - Interest	55	46	36	26	<u>16</u>
Total Expenditures	<u>134,547</u>	<u>138,835</u>	<u>145,225</u>	<u>158,015</u>	<u>178,975</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,136</u>	<u>18,648</u>	<u>20,605</u>	<u>6,385</u>	<u>7,276</u>
OTHER FINANCING SOURCES					
Transfers In	17,912	17,796	18,317	19,222	<u>20,791</u>
Transfers Out	(18,815)	(22,284)	(34,461)	(29,431)	<u>(29,889)</u>
Total Other Financing Sources	<u>(903)</u>	<u>(4,488)</u>	<u>(16,144)</u>	<u>(10,209)</u>	<u>(9,098)</u>
Change in Fund Balances	6,233	14,160	4,461	(3,824)	<u>(1,822)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>42,077</u>	<u>48,310</u>	<u>62,470</u>	<u>66,931</u>	<u>63,107</u>
FUND BALANCES, END OF YEAR	<u>68,310</u>	<u>62,470</u>	<u>66,931</u>	<u>63,107</u>	<u>61,285</u>

Sources: City of Palo Alto 2013-14 through 2016-17 CAFRs and City of Palo Alto 2017-18 Budget, adopted June 27, 2017.

(1) In FY2013-14 and 2014-15 Police and Fire totals are reported under a combined heading, Public Safety.

City Financial Management Policies

The City Council has adopted a comprehensive set of financial management policies to provide for: (i) establishing targeted general fund reserves; and (ii) the prudent investment of City funds. The City's practice is to incur debt only after deliberation over the effect of such debt on the City's General Fund and other resources of the City, and in those circumstances where the use of debt would be appropriate to the scale and economic life of the asset being financed and the accumulation or availability of reserves to fund the capital requirement.

General Fund Reserve Policy. The following table shows the City's general fund reserve policy guidance, actual reserves for fiscal year 2016-17 and budgeted reserve for fiscal year 2017-18.

Table 3
General Fund Reserve Policy

	Policy Guidance	Actual FY 2016-17	Budgeted FY 2017-18
% of Expenses	<u>15% to 20%; target goal of 18.5%</u>	<u>18.5%</u>	<u>18.5%</u>

Source: City of Palo Alto Finance Department.

Investment Policy. The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved in June, 2017 (the "Investment Policy"), and section 53601 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Trust Agreement are invested at the direction of the City in Permitted Investments, as defined in the Trust Agreement, and are subject to certain limitations contained therein. See APPENDIX C—INVESTMENT POLICY OF THE CITY and APPENDIX D—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—Investments.

Current Investments

The City's investment portfolio (par value), as of February 28, 2018, included cash and investments of \$528,759,262.

Principal Sources of General Fund Revenues

Property taxes were the single largest revenue source to the general fund in fiscal year 2016-17, representing approximately 23.9% of revenues. Sales taxes represented approximately 18.2% of revenues. For a discussion of potential State Budget impacts on general fund revenues, see "—State Budgets." For a discussion of sales tax revenues and property taxes, see "—Sales Tax" and "—*Ad valorem* Property Taxation."

In addition, the City receives the following local taxes:

Utility Users Tax. The Utility Users Tax is levied on electric, gas, and water consumption, as well as on telephone usage. Utility Users Tax represented approximately 8.7% of revenues in fiscal year 2016-17.

Transient Occupancy Tax. The City imposes a Transient Occupancy Tax of 14% on short term (30 days or less) room rental. Transient Occupancy Tax represented approximately 14.3% of revenues in fiscal year 2016-17.

Documentary Transfer Tax. The Documentary Transfer Tax is based on the number and value of property sales.

The following table shows the City's audited general fund tax revenues by source for the most recent four fiscal years and budgeted tax revenues for fiscal year 2017-18:

Table 4
Tax Revenues by Source
(Dollars in Thousands)

Source	FY2013-14 Audited	FY2014-15 Audited	FY2015-16 Audited	FY2016-17 Audited	FY2017-18 Budget
Property Tax	\$ 30,587	\$ 34,117	\$ 36,607	\$ 39,381	\$ 41,927
Sales Tax	29,424	29,675	30,018	29,923	31,458
Utility User Tax	11,008	10,861	12,469	14,240	13,867
Transient Occupancy Tax	12,255	16,699	22,366	23,477	25,143
Documentary Transfer Tax	7,811	10,384	6,266	7,491	6,930
Other Taxes and Fines	2,136	1,900	2,238	2,167	2,060
Total Revenues	<u>\$93,221</u>	<u>\$103,636</u>	<u>\$109,964</u>	<u>\$116,679</u>	<u>\$121,385</u>

Sources: City of Palo Alto 2013-14 through 2016-17 CAFRs and City of Palo Alto 2017-18 Budget, adopted June 27, 2017.

Property Taxes

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed.

The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of “base” sources from the tax rate area. Each year’s growth allocation becomes part of each local agency’s allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll, with respect to which taxes are delinquent, becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and prepayment penalty of one and one-half percent per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county clerk and county recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the delinquent taxpayer.

Alternative Method of Tax Apportionment. The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The Teeter Plan is applicable to secured property tax levies. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The City is not aware of any petitions for the discontinuance of the Teeter Plan in the County.

Assessed Valuation

The City uses the facilities of the County for tax assessment and collection. City taxes are assessed and collected at the same times and on the same tax rolls as County, school and special district taxes.

Under California law, two additional types of exemptions were authorized beginning in the tax year 1969-70. The first of these exempts 50% of the assessed valuation of business inventories from taxation. The second provides an exemption of \$7,000 of the assessed valuation of an owner-occupied dwelling from which application has been made to the County Assessor. Under a recently enacted constitutional amendment, the California Legislature can raise this exemption. Revenue estimated to be lost to local taxing agencies due to such exemption is reimbursed from State sources. The reimbursement is based upon total taxes due upon these exempt values and therefore is not reduced by any amounts for estimated delinquencies.

Summarized below is the assessed valuation and tax collection record of the City for the most recent fiscal years.

Table 5
Assessed Valuations
(Dollars in thousands)

Fiscal Year	Local Secured	Utility	Unsecured	Total ⁽¹⁾
2011-12	\$ 20,967,297	\$ 2,572	\$ 1,516,837	\$ 22,486,707
2012-13	22,334,464	2,572	1,355,969	23,693,006
2013-14	24,039,564	2,572	1,493,922	25,536,059
2014-15	25,572,918	2,572	1,622,636	27,198,127
2015-16	27,618,260	2,572	1,794,921	29,415,754
2016-17	30,148,340	2,572	1,803,468	31,954,381
2017-18	32,509,995	2,572	1,922,170	34,434,739

Source: California Municipal Statistics, Inc.

(1) Totals may not add due to rounding.

Principal Taxpayers. The following table sets forth the principal secured property taxpayers in the City as of the most recent fiscal year.

Table 6
Largest Local Secured Property Tax Payers
Fiscal Year 2017-18

	Property Owner	Primary Land Use	2017-18 Assessed Valuation	% of Total ⁽¹⁾
1.	Board of Trustees Leland Stanford Jr. University	Various Land Uses	\$5,119,879,083 ⁽²⁾	15.75%
2.	Space Systems Loral Land LLC	Industrial	235,175,380	0.72
3.	Google Inc.	Industrial/Office	209,211,273	0.64
4.	EOS II Palo Alto Technology Center LLC	Office Building	126,018,744	0.39
5.	395 Page Mill LLC	Office Building	115,983,607	0.36
6.	Hudson Embarcadero Place LLC	Office Building	112,328,281	0.35
7.	Hohbach Realty Co. LP	Apartments	92,080,929	0.28
8.	SI 45 LLC	Office Building	79,554,128	0.24
9.	BVK Hamilton Ave. LLC	Office Building	71,753,938	0.22
10.	LVBL Ventures LLC	Office Building	69,743,570	0.21
11.	Ronald & Ann Williams Charitable Foundation	Shopping Center	64,913,718	0.20
12.	Donald Ferrando Trustee	Office Building	63,309,536	0.19
13.	PA Hotel Holdings LLC	Hotel	62,825,766	0.19
14.	PPC Forest Towers LLC	Apartments	58,620,362	0.18
15.	130 Lytton Owner LLC	Office Building	55,981,004	0.17
16.	385 Sherman Holdings LLC	Office Building	49,394,296	0.15
17.	Palmetto Hospitality of Palo Alto LLC	Hotel	48,221,847	0.15
18.	Pacific Land Development	Hotel	48,000,456	0.15
19.	529 Bryant St. Parts LLC	Office Building	47,065,478	0.14
20.	Palo Alto Bowl LLC	Hotel	41,825,475	0.13
	Total Top 20		\$6,771,886,871	20.83%

Source: California Municipal Statistics, Inc.

(1) 2017-18 Local Secured Assessed Valuation: \$32,509,995,986.

(2) Net taxable value.

Sales and Use Taxes

A sales tax is imposed on the privilege of consuming personal property in California. California does not tax services. The tax rate is established by the State Legislature, and is presently 7.25%, statewide. In addition, many of California's cities, counties, towns and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. These district taxes can vary up to 1%, and more than one district tax may be in effect for a particular location. The City's share of sales tax is approximately 1% when one considers the combined City share of 0.75% and the State's 0.250% Fiscal Recovery Funding (Triple-Flip swap) explained below. With the enactment of the Triple Flip, the City now receives the 0.250% as reclassified revenue through property tax as an in lieu remittance, the payment of which heretofore coincides with the County property tax calendar. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

Table 7
Sales Tax Rates

<u>State General Fund</u>	<u>5.75</u>
<u>State Local Public Safety Fund</u>	<u>0.50</u>
<u>City General Fund</u>	<u>1.00</u>
<u>County Transportation</u>	<u>1.75</u>
<u>Total</u>	<u>9.00%</u>

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

~~On March 2, 2004, voters approved a statewide bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the "Triple Flip." The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the "Triple Flip," one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur in approximately 9 to 13 years. See "RISK FACTORS—State Budget Information."~~

Motor Vehicle In-Lieu Tax

Vehicle license fees are assessed in the amount of 2% of a vehicle's depreciation market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the vehicle license fees ("VLF") paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25% of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5% of 2% (resulting in the current effective rate of 0.65%). This level of offset was estimated to provide tax relief of \$3.95 billion in the fiscal year 2003-04.

In connection with the offset of the VLF, the Legislature authorized appropriations from the State general fund to “backfill” the offset so that the local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient general fund moneys to fully backfill the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged. In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient general fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners were restored to the 1998 level. However, the offset suspension was rescinded by the Governor on August 17, 2003, and offset payments to local governments resumed. Local governments received backfill payments totaling \$3.80 billion in fiscal year 2002-03. Backfill payments totaling \$2.65 billion were expected to be paid to local governments in fiscal year 2003-04. The State-local agreement also provided for the repayment in August 2006 of approximately \$1.2 billion in backfill that was not received by local governments during the time period between the suspension of the offsets and the implementation of higher fees. This repayment obligation was codified by Proposition 1A, which was approved by voters in the November 2004 general election and was repaid early by the State in August 2005. For a description of Proposition 1A, see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Proposition 1A.”

Beginning in fiscal year 2004-05, the State-local agreement permanently reduced the VLF rate to 0.65% and replaced the backfill with a like amount of property taxes. Subsequent to fiscal year 2004-05, each City’s “property tax in-lieu of VLF” increased proportionally to increases in such city’s assessed valuation. However, in fiscal years 2004-05 and 2005-06, the State “shifted” \$700 million in city and county taxes to the State’s General Fund.

The following table sets forth the Motor Vehicle License Fees and Property Tax In-Lieu of VLF received by the City for the last four fiscal years.

Table 8
Property Tax In-Lieu of VLF

	<u>FY2013-14</u>	<u>FY2014-15</u>	<u>FY2015-16</u>	<u>FY2016-17</u>
Motor Vehicle License Fees	<u>\$ 28,157</u>	<u>\$ 27,400</u>	<u>\$ 27,006</u>	<u>\$ 30,555</u>
Property Tax In-Lieu of VLF	<u>5,887,754</u>	<u>6,270,782</u>	<u>6,780,725</u>	<u>7,362,856</u>
TOTAL	<u><u>\$5,915,911</u></u>	<u><u>\$6,298,182</u></u>	<u><u>\$6,807,731</u></u>	<u><u>\$7,393,411</u></u>

Source: City of Palo Alto Finance Department.

Senate Bill 89 was signed into law as part of the State’s Fiscal Year 2011-12 Budget Act. SB 89 increases motor vehicle license fees (“VLF”) by \$12. This new funding source “frees up” \$300 million of VLF revenue that had been used to fund DMV operations. Under the provisions of SB 89, this money is transferred to a new Local Law Enforcement Services Account (“LLESA”) to fund law enforcement grants. In addition, beginning July 1, 2011, SB 89 transfers the remaining VLF revenue previously allocated to cities to the LLESA. Instead of cities receiving \$130 million in VLF revenues, under SB 89 they would only receive \$75 million in earmarked grants.

Other Revenue Sources

In addition to the tax revenues described above, the City receives the following general fund revenues:

Charges for Services. This category is comprised of external reimbursements and fee-based payments for services provided by General Fund departments.

Permits and Licenses. These revenues consist primarily of building construction permit fees.

Return on Investment. These revenues consist of returns on the City's portfolio.

Rental Income. These revenues include income from the City's Enterprise Funds and the Cubberley Community Center.

The following table shows the City's audited other general fund revenue sources by source for the most recent four fiscal years and budgeted other revenues for fiscal year 2017-18:

Table 9
Other Revenue Sources

Source	FY2013-14 Audited	FY2014-15 Audited	FY2015-16 Audited	FY2016-17 Audited	FY2017-18 Budget
Charges for Services	\$23,962	\$25,973	\$23,910	\$22,267	\$26,497
From Other Agencies	768	3,712	3,190	2,758	11,764
Permits and Licenses	6,950	7,056	7,912	7,437	8,837
Investment Earnings (1)	1,327	1,177	2,494	(1,193)	1,024
Rental Income	14,215	14,911	15,769	15,692	15,575
Other Income	1,240	1,018	2,591	760	1,169
Total Revenues	\$48,462	\$53,847	\$55,866	\$47,721	\$64,866

Sources: City of Palo Alto 2013-14 through 2016-17 CAFRs and City of Palo Alto 2017-18 Budget, adopted June 27, 2017.

(1) Net of actual interest earnings and unrealized (paper) gain and loss.

OTHER FINANCIAL INFORMATION

Labor Relations

Most full-time City employees are represented by two labor union associations, the principal one being the SEIU, which represents approximately 42.2% of all City employees. Approximately 71.3% of all permanent City employees are covered by negotiated agreements with management, confidential, and city

attorney employees being unrepresented. The City has never had an employee work stoppage. Negotiated agreements have the following expiration dates:

Table 10
Negotiated Employee Agreements ⁽¹⁾

<u>Employee Group</u>	<u>Contract Expiration Date</u>	<u>Number of Employees</u>
<u>International Association of Firefighters (IAFF)</u>	<u>June 30, 2018</u>	<u>83</u>
<u>Fire Chiefs' Association (FCA)</u>	<u>June 30, 2018</u>	<u>4</u>
<u>Palo Alto Peace Officers Association (PAPOA)</u>	<u>June 30, 2018</u>	<u>72</u>
<u>Palo Alto Police Managers Association (PAPMA)</u>	<u>June 30, 2018</u>	<u>6</u>
<u>Service Employees International Union (SEIU)</u>	<u>December 31, 2018</u>	<u>542</u>
<u>Service Employees International Union Hourly Unit (SEIU-H)</u>	<u>June 30, 2021</u>	<u>163</u>
<u>Utilities Management Professional Association of Palo Alto (UMPAPA)</u>	<u>No Existing Contract</u>	<u>46</u>
<u>Management and Professional Personnel and Council Appointees Compensation Plan</u>	<u>June 30, 2019</u>	<u>204</u>
<u>Limited Hourly Employees Compensation Plan</u>	<u>June 30, 2017</u>	<u>156</u>

Source: City of Palo Alto Finance Department.

Risk Management

Coverage. The City provides dental coverage to employees through a City plan, which is administered by a third-party service agent. The City is self-insured for dental claims.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$750,000 in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5,000 deductible and coverage up to \$1.0 million per loss. The Director of Administrative Service Director and City Manager each have coverage up to \$4.0 million per loss.

The City's property, boiler, and machinery insurance policy has various deductibles and coverage based on the type of property.

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$100 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

ACCEL was established for the purpose of creating a risk management pool for central California municipalities. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. The board controls the operations of ACCEL, including selection of claims management, general administration and approval of the annual budget.

The City's deposits with ACCEL equal the ratio of the City's payroll to the total payroll of all entities. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the year ended June 30, 2017, the City paid \$0.9 million to ACCEL for current year coverage.

Claims Liability. The City provides for the uninsured portion of claims and judgments in the General Liabilities insurance program funds. Claims and judgments, including a provision for claims incurred but not reported, and claim adjustment expenses are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims.

The City's liability for uninsured claims is limited to dental, general liability, and workers' compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense.

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, nor have there been any significant reductions in insurance coverage.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017—Notes to Basic Financial Statements—NOTE 14.

Employee Retirement Plans

Plan Description. Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information.

Benefits Provided. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service (equal to one year of full-time employment), age at retirement and final compensation. The death benefit is one of the following: the 1959 Survivor Benefit, or the pre-retirement option 2W Death Benefit for local fire members only.

Employees Covered. At June 30, 2016 (valuation date), the following employees were covered by the benefit terms for each Plan.

Table 11
Covered Employees

	Miscellaneous Plan	Safety Plan
Inactive employee or beneficiaries currently receiving benefits	1,061	417
Inactive employees entitled to but not yet receiving benefits	744	101
Active employees	821	174
Total	2,626	692

Source: City of Palo Alto 2016-17 CAFR.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Council approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City's PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City's portfolio which is restricted by State regulations to fixed income instruments. As of June 30, 2017, the City reported the account balance of \$2.1 million as restricted cash in the General Benefits, an Internal Service Fund.

Net Pension Liability. The City's net pension liability for both Plans is measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2016 (measurement date), using the Actuarial Valuation Report as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. At June 30, 2017, the City reported a net pension liability of \$377.3 million for both plans.

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Miscellaneous and Safety Plans (dollars in thousands):

Table 12
Changes in the Net Pension Liability

	Miscellaneous Plan			Safety Plan		
	Total Pension Liability	Plan Net Position	Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at July 1, 2016	683,974	477,782	206,192	373,009	259,579	113,430
Service Cost	12,582	-	12,582	5,916	-	5,916

Interest on total pension liability	51,531	-	51,531	27,816	-	27,816
Differences between actual and expected experience	757	-	757	(1,516)	-	(1,516)
Employer contribution	-	18,840	(18,840)	-	9,403	(9,403)
Employee Contribution	-	5,812	(5,812)	-	2,059	(2,059)
Net investment income	-	2,464	(2,464)	-	1,259	(1,259)
Benefit payments	(34,825)	(34,825)	-	(21,669)	(21,669)	-
Administrative expense	-	(291)	291	-	(157)	157
Net Changes	30,045	(8,000)	38,045	10,547	(9,105)	19,652
Balances at June 30, 2017	714,019	469,782	244,237	383,556	250,474	133,082

Source: City of Palo Alto 2016-17 CAFR.

For more information, including actuarial assumptions, a discussion of the discount rate used, and schedules of funding progress for the City's various pension plans, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017—Notes to Basic Financial Statements—NOTE 11.

Recent Actions Taken by CalPERS. At its April 17, 2013, meeting, CalPERS' Board of Administration (the "Board of Administration") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. As a result, CalPERS now employs an amortization and smoothing policy that will pay for all gains and losses over a 20-year period with a five-year ramp-up, and five-year ramp-down, period. The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the Board of Administration approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. As a result of these changes, rates increased beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>. The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.

On December 21, 2016, the Board of Administration voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

<u>Fiscal Year</u>	<u>Discount Rate</u>
<u>2017-18</u>	<u>7.375%</u>
<u>2018-19</u>	<u>7.250</u>
<u>2019-20</u>	<u>7.000</u>

For public agencies like the City, the new discount rate will take effect on July 1, 2018. Lowering the discount rate means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans. Additionally, many CalPERS employers will see a 30 to 40 percent increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the pension fund to a fully funded status over the long-term.

PERS Amortization Period Reform. On February 13, 2018 the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability ("UAL") contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions for its Miscellaneous and Safety Plans.

Other Post-Employment Benefits

Plan Description. In addition to providing pension benefits, the City participates in the California Public Employees' Medical and Health Care Act program to provide certain health care benefits for retired employees. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits provided to retirees are noted in the tables contained in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017—Notes to Basic Financial Statements—NOTE 12.

In FY 2008, the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The Trust, California Employers' Retirees Benefit Trust (CERBT), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council.

Funding Policy and Actuarial Assumptions. The City's policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution. The annual required contribution (ARC) was determined as part of a June 30, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions are described in detail in in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017—Notes to Basic Financial Statements—NOTE 12.

The City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below (dollars in thousands):

Table 13
Net OPEB Obligation

Annual required contribution (ARC)	\$ 16,365
Interest on Net OPEB Obligation	2,096
Adjustment to annual required contribution	(1,571)
Annual OPEB cost	<u>16,890</u>
Contributions to OPEB Trust	2,731
Contributions to Retirees	8,074
Implicit Rate Subsidy	2,203
City's portion of current premiums paid	<u>1,639</u>
Total Contributions Made	<u>14,647</u>
Change in Net OPEB Asset	(2,243)
Net OPEB Obligation June 30, 2016	<u>21,662</u>
Net OPEB Obligation June 30, 2017	<u>19,419</u>

Source: City of Palo Alto 2016-17 CAFR.

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below (dollars in thousands):

Table 14
Historical OPEB Obligation

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
2014-15	14,773	15,034	102%	(22,871)
2015-16	15,292	14,083	92	(21,662)
2017-18	16,890	14,647	87	(19,419)

Source: City of Palo Alto 2016-17 CAFR.

For more information see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017—Notes to Basic Financial Statements—NOTE 12.

Short-Term General Fund-Secured Obligations

The City has no outstanding short-term obligations secured by its general fund.

Long-Term General Fund-Secured Obligations

Other than the 2002B Certificates to be refunded, the only outstanding long term general fund-secured obligation of the City is a lease-purchase agreement entered into in 2011 with JP Morgan Chase Bank, N.A. to finance the redemption of certain certificates of participation executed and delivered in 1998 to finance and refinance golf course improvement. Lease proceeds were \$3.2 million. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1 at a rate of 2.49 percent.

Other Obligations

The City has certain other outstanding obligations including utility revenue bonds and general obligation bonds which are not secured by the City's general fund.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30 2015—Notes to Basic Financial Statements—NOTE 7.

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective April 1, 2018. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

Table 15
Direct and Overlapping Bonded Debt as of _____April 1, 2018

CITY OF PALO ALTO

2017-18 Assessed Valuation: \$34,434,739,002

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/18
Santa Clara County	7.656%	\$ 77,509,344
Foothill-De Anza Community College District	22.105	140,145,253
Palo Alto Unified School District	90.084	232,807,404
Fremont Union High School District	.010	43,328
Los Gatos-Saratoga Joint Union High School District	.012	12,701
Mountain View-Los Altos Union High School District	.961	505,031
Cupertino Union School District	.017	45,990
Los Altos School District	1.211	692,026
Mountain View-Whisman School District	.745	1,381,640
Saratoga Union School District	.026	6,717
Whisman School District	1.959	299,593
City of Palo Alto	100.000	62,140,000⁽¹⁾
El Camino Hospital District	.080	102,240
Midpeninsula Regional Open Space District	12.970	12,107,495
City of Palo Alto Special Assessment Bonds	100.000	22,370,000
Santa Clara Valley Water District Benefit Assessment District	7.656	6,299,740
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		556,468,502

DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Santa Clara County General Fund Obligations	7.656	47,040,988
Santa Clara County Pension Obligation Bonds	7.656	27,373,812
Santa Clara County Board of Education Certificates of Participation	7.656	381,652
Foothill-DeAnza Community College District Certificates of Participation	22.105	6,367,093
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	.012	602
Mountain View-Los Altos Union High School District Certificates of Participation	.961	17,730
Los Altos School District Certificates of Participation	1.211	32,255
Mountain View-Whisman School District Certificates of Participation	.745	253,449
Saratoga Union School District Certificates of Participation	.026	1,015
City of Palo Alto General Fund Obligations	100.000	1,230,852
Santa Clara County Vector Control District Certificates of Participation	7.656	205,564
Midpeninsula Regional Open Space Park District General Fund Obligations	12.970	15,958,366
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		98,863,378
Less: Santa Clara County supported obligations		31,997,294
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		66,866,084

GROSS COMBINED TOTAL DEBT	655,331,880⁽²⁾
NET COMBINED TOTAL DEBT	623,334,586

Ratios to 2017-18 Assessed Valuation:

Direct Debt (\$62,140,000)	0.18%
Direct and Overlapping Tax and Assessment Debt.....	1.62%
Total Direct Debt (\$63,370,852)	0.18%
Gross Combined Total Debt.....	1.90%
Net Combined Total Debt.....	1.81%

Source: California Municipal Statistics, Inc.

(1) ~~Excludes issue to be sold. Based on 2015-16 ratios.~~

(2) ~~Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Excludes issue to be sold.~~

(3) ~~Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.~~

THE CORPORATION

The Corporation is a nonprofit, 501(c)(4) corporation formed by the City in 1983 for the purpose, *inter alia*, of rendering financial assistance to the City by financing, acquiring, constructing, improving, leasing and selling buildings, improvements, equipment and other real and personal property for the benefit of residents of the City and surrounding areas. The City Council of the City sits as the Board of Directors of the Corporation.

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Certificates. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Certificates, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Certificates are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Lease Payments Are Not Debt

The obligation of the City to make the Lease Payments under the Lease Agreement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make Lease Payments does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that, for so long as the Leased Property is available for its use, it will make the necessary annual appropriations within its budget for the Lease Payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments, or which the City, in its discretion, may determine to pay prior to the Lease Payments.

The City has the capacity to enter into other obligations payable from the City's general fund, without the consent of or prior notice to the Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitations on appropriations under Article XIII B of the California Constitution. For information on the City's current limitations on appropriations, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Article XIII B of the California Constitution."

Valid and Binding Covenant to Budget and Appropriate

Pursuant to the Lease Agreement, the City covenants to take such action as may be necessary to include Lease Payments due in its annual budgets and to make necessary appropriations for all such payments. Such covenants are deemed to be duties imposed by law, and it is the duty of the public officials of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. Upon delivery of the Certificates, Special Counsel will render its opinion (substantially in the form of APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL) to the effect that, subject to the limitations and qualifications described therein, the Lease Agreement constitutes a valid and binding obligation of the City.

Additional Obligations of the City

The Lease Agreement does not prohibit the City from incurring additional lease and other obligations payable from the City's General Fund. In that regard, the City may, from time to time, incur general fund obligations to finance public improvements (see "CITY FINANCIAL INFORMATION—Outstanding Indebtedness"), which may also include lease obligations payable from its general fund.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Leased Property caused by material damage, title defect, destruction to or condemnation of the Leased Property, Lease Payments will be subject to abatement. In the event that such component of the Leased Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Leased Property or prepayment of the Certificates, there could be insufficient funds to make payments to Owners in full. Reduction in Lease Payments due to abatement as provided in the Lease Agreement does not constitute a default thereunder.

It is not possible to predict the circumstances under which such an abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of the execution and delivery of the Certificates.

Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell a fee simple interest in the Leased Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Risk of Uninsured Loss

The City covenants under the Lease Agreement to maintain certain insurance policies on the Leased Property. See “SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance.” These insurance policies do not cover all types of risk, and the City need not obtain insurance except as available on the open market from reputable insurers. For instance, the City does not covenant to maintain earthquake insurance. The Leased Property could be damaged or destroyed due to earthquake or other casualty for which the Leased Property is uninsured. Additionally, the Leased Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City’s liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Property will be sufficient to redeem the Certificates.

Under the Lease Agreement the City may obtain casualty insurance which provides for a deductible up to \$250,000. Should the City be required to meet such deductible expenses, the availability of general fund revenues to make Lease Payments may be correspondingly affected.

The City is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Property. Depending on its severity, an earthquake could result in abatement of Lease Payments under the Lease Agreement. See “—Abatement.”

Eminent Domain

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Lease Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants in the Lease Agreement to contest any eminent domain award which is insufficient to either: (i) prepay the Lease

Payments in whole, if all the Leased Property is condemned; or (ii) prepay a pro rata share of Lease Payments, in the event that less than all of the Leased Property is condemned.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Leased Property. In general, the owners and lessees of the Leased Property may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Leased Property may be limited in the future resulting from the current existence on the Leased Property of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Leased Property of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Leased Property.

The City is unaware of the existence of hazardous substances on the Leased Property site which would materially interfere with the beneficial use thereof.

Earthquakes

The City is not legally obligated under the Lease Agreement to maintain, or cause to be maintained, earthquake insurance on the Leased Property and no assurance is made that any earthquake insurance will be maintained. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City’s right to use and occupy all or a portion of the Leased Property, which could result in Lease Payments being subject to abatement. Additionally, severe seismic activity in the City could impact the City’s general fund expenditures. See “CERTAIN RISK FACTORS—Abatement” above.

Bankruptcy

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the “Bankruptcy Code”). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. A City or Authority bankruptcy petition could have a material adverse effect on the payment of the Certificates. The following paragraphs present a discussion of certain potential consequences surrounding a potential City or Authority bankruptcy. It is not intended to be an exhaustive discussion of all potential adverse consequences or potential outcomes.

In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions

of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease or assume the Lease despite any provision of the Lease which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease, the Trustee, on behalf of the Owners of the Certificates, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Certificates. Moreover, such rejection would terminate the Lease and the City's obligations to make payments thereunder.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the Certificates, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liabilities, including, without limitation, inflationary factors, changes in statutory provisions of PERS retirement system laws, changes in the level of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods (including but not limited to the assumed rate of return), and differences between actual and anticipated investment experience of PERS. Any of these factors could give rise to additional liability of the City to its pension plans as a result of which the City would be obligated to make additional payments to its pension plans in order to fully fund the City's obligations to its pension plans.

Early Prepayment Risk

Early prepayment of the Certificates may occur in whole or in part without premium, on any date if the Leased Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance, or on any Interest Payment Date, without a premium (see

“THE CERTIFICATES - Prepayment”), if the City exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease Agreement and the Trust Agreement.

Limitations on Remedies

The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. Although the Lease Agreement provides that if the City defaults the Trustee may reenter the Leased Property and re-let the Leased Property, portions of the Leased Property may not be easily recoverable, and even if recovered, could be of little value to others because of the Leased Property’s specialized nature. Additionally, the Trustee may have limited ability to re-let the Leased Property to provide a source of rental payments sufficient to pay the principal of and interest on the Certificates so as to preserve the tax-exempt nature of interest with respect to the Certificates. Furthermore, due to the governmental nature of the Leased Property, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto.

Alternatively, the Trustee may terminate the Lease Agreement and proceed against the City to recover damages pursuant to the Lease Agreement. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The rights of the Owners of the Certificates are subject to certain limitations on legal remedies against cities, redevelopment agencies and other governmental entities in the State, including but not limited to a limitation on enforcement against funds that are otherwise needed to serve the public welfare and interest. Additionally, the rights of the Owners of the Certificates may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws limiting or otherwise affecting the enforcement of creditors’ rights generally (as such laws are now or hereafter may be in effect), (ii) equity principles (including but not limited to concepts of materiality, reasonableness, good faith and fair dealing) and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or law, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Corporation could be prohibited or severely restricted from taking any steps to enforce their rights under the Lease Agreement and from taking any steps to collect amounts due from the City under the Lease Agreement.

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

Dependence on State for Certain Revenues

A number of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. In the event of a material economic downturn in the State, there can be no assurance that any resulting revenue shortfalls to the State will not reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of the State's efforts to address any such related State financial difficulties.

Risk of Tax Audit

In December 1999, as a part of a larger reorganization, the Internal Revenue Service (the "Service"), commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by Service officials indicate that the number of tax-exempt bond examinations (which would include securities such as the Certificates) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an examination of the Certificates was undertaken that it would not adversely affect the market value of the Certificates. See "TAX MATTERS." The City has not been contacted by the Service regarding the examination of any of its bond transactions.

No Reserve Fund

No debt service reserve fund has been established with respect to the Certificates.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," in order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the City has covenanted in the Lease Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest with respect to the Certificates under section 103 of the Code. Interest with respect to the Certificates could become includable in gross income for purposes of Federal income taxation retroactive to the date the Certificates were delivered, as a result of acts or omissions of the City in violation of the Code. Should such an event of taxability occur, the Certificates are not subject to early prepayment and will remain outstanding to maturity or until prepaid under the optional prepayment or mandatory sinking fund prepayment provisions of the Trust Agreement.

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Certificates, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

Changes in Law

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the

Constitution of the State resulting in a reduction of the general fund revenues of the City and consequently, having an adverse effect on the security for the Certificates.

Taxability Risk

As discussed under the caption “TAX MATTERS,” interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were delivered, as a result of future acts or omissions of the City in violation of its covenants in the Lease Agreement. There is no provision in the Certificates or the Trust Agreement for special prepayment or acceleration or for the payment of additional interest should such an event of taxability occur, and the Certificates will remain outstanding until maturity or until redeemed under one of the other prepayment provisions contained in the Trust Agreement.

In addition, as discussed under the caption “TAX MATTERS,” Congress is or may be considering in the future legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Certificates are outstanding or that any such changes will not adversely affect the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes. If the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Certificates would be adversely impacted.

STATE BUDGET INFORMATION

Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2017-18 State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” Additionally, an impartial analysis of the State’s Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Authority or the City, and neither the Authority nor City take responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2018-19 Proposed State Budget

On January 10, 2018, the Governor released his proposed State budget for Fiscal Year 2018-19 (the “2018-19 Proposed State Budget”). The 2018-19 Proposed State Budget estimates that total resources available in Fiscal Year 2017-18 totaled approximately \$131.86 billion (including a prior year balance of \$4.61 billion) and total expenditures in Fiscal Year 2017-18 totaled approximately \$126.51 billion. The 2018-19 Proposed State Budget projects total resources available for Fiscal Year 2018-19 of \$135.14 billion, inclusive of revenues and transfers of \$129.79 billion and a prior year balance of \$5.35 billion. The 2018-19 Proposed State Budget projects total expenditures of \$131.69 billion. The 2018-19 Proposed State Budget proposes to allocate \$1.17 billion of the State’s General Fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and \$2.29 billion of such fund balance to the State’s Special Fund for Economic Uncertainties.

According to the Legislative Analyst’s Office, the 2018-19 Proposed State Budget proposes to end Fiscal Year 2018-19 with \$15.7 billion in total reserves, which would consist of \$13.5 billion in the State’s constitutional rainy-day fund (reserves available for future budget emergencies) and \$2.3 billion in discretionary reserves (available for any purpose). The budget would increase the rainy-day fund by over \$5 billion in Fiscal Year 2018-19, including an optional \$3.5 billion deposit. The 2018-19 Proposed State Budget deposits enough reserves into the State’s rainy-day fund that it reaches its constitutional maximum. The Legislative Analyst’s Office advises that this approach may be prudent in light of economic and federal budget uncertainty, but comes with trade-offs for the State, including requiring rainy day reserves in excess of 10 percent to be spent on infrastructure projects.

The final Fiscal Year 2018-19 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the 2018-19 Proposed State Budget and may be affected by national and State economic conditions and other factors which the City cannot predict. The Governor cautions that there are uncertainties that must be considered as the 2018-19 Proposed State Budget is revised, including the impact of federal tax reform and federal healthcare legislation. Accordingly, the City does not provide any assurances that there will not be any changes in the final Fiscal Year 2018-19 State budget from the 2018-19 Proposed State Budget, nor can the City predict the impact that the final Fiscal Year 2018-19 State budget, or subsequent budgets, will have on its finances and operations.

The full summary of the Governor’s Budget Proposal can be viewed at www.ebudget.ca.gov or www.dof.ca.gov.

Future State Budgets

The City receives a portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities in the State.

The City cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. See also “RISK FACTORS—Dependence on State for Certain Revenues.”

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation

of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or “severely disabled homeowners” who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence’s assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are “severely disabled,” to transfer the old residence’s assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property.

Section 4 of Article XIII A also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The City's appropriations limit for Fiscal Year 2018 has been established at \$158,370,000. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara City Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. The county-wide sales tax at issue received an affirmative vote of only 54.1% and was found to be invalid.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Proposition 218

Proposition 218. On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A of the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIII D. Proposition 218 added voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

Proposition 218 provides that, effective July 1, 1997, fees that are charged “as an incident of property ownership” may not “exceed the funds required to provide the property related services” and may only be charged for services that are “immediately available to the owner of the property.”

The City does not expect the application of Proposition 218 will have a material adverse impact on its ability to pay Lease Payments.

Proposition 1A of 2004

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the vehicle license fee (the “VLF”). The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State “mandates” a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has “suspended” mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the “State-local agreement”) in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35

percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004 the voters of the State approved Proposition 1A (“Proposition 1A of 2004”). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the State’s access to local governments’ property, sales, and VLF revenues as of November 3, 2004. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the Statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Pursuant to statutory changes made in conjunction with amendments to the fiscal year 2008-09 State Budget Act, the fiscal year 2012-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2012 (collectively, the “February 2012 Budget Package”), the VLF rate increased from 0.65% to 1.15% effective May 19, 2012. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund. This increased VLF rate will be effective through fiscal year 2010-11.

Proposition 22

Proposition 22 (“Proposition 22”), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See “ – Proposition 1A” herein. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase school and community college district’s share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The County does not believe that the adoption of Proposition 22 will have a significant impact on its revenues and expenditures during Fiscal Year 2012-13.

Proposition 26

Proposition 26 (“Proposition 26”), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of “taxes.” Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, 30 enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. See “ – Proposition 218.”

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the County’s fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 1A, 22, and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. The limitations imposed upon the City by these provisions hinder the City's ability to raise revenues through taxes or otherwise and may therefore prevent the City from meeting increased expenditure requirements. From time to time, other initiative measures could be adopted, some of which may place further limitations on the ability of the State, the City or local districts to increase revenues or to spend money or which could have other financially adverse effects such as requiring the City to undertake new responsibilities. Such other initiatives could have a material adverse effect on the City's financial condition.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Certificates, the City will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency, public board, or body pending or threatened against the City or the Corporation affecting their existence or the titles of their respective officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Certificates, or the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, any agreement entered into between the City and any purchaser of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Property Lease or any other applicable agreements or any action of the City or the Corporation contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Corporation or their authority with respect to the Certificates or any action of the City or the Corporation contemplated by any of said documents, nor, to the knowledge of the City or the Corporation, is there any basis therefor.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the City has entered into an agreement with U.S. Bank National Association, as Trustee and Dissemination Agent (the "Dissemination Agent"), for the benefit of holders of the Certificates to provide certain financial information and operating data relating to the City and the balances of funds relating to the Certificates, by not later than April 1 of each fiscal year commencing with the report for the 2015-16 fiscal year (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Information and notices of material events will be filed by the City or the Dissemination Agent, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The nature of the information to be provided in

the Annual Information and the notices of material events is set forth in APPENDIX G—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

The City’s annual filings for Fiscal Years 2013, 2014, 2015, 2016 and 2017 in connection with certain outstanding utility revenue bonds omitted certain information relating to the top ten customers of its gas system. For Fiscal Years 2013 and 2015, certain information required in connection with an issue of assessment district bonds was not filed until approximately 124 days and 229 days, respectively, after the date required for such filings. For Fiscal Years 2014, 2015 and 2016, the City’s annual report was not properly associated on EMMA with the CUSIPs for certain general obligation bonds. The omissions have been corrected; correcting EMMA filings have been made.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC, San Francisco, California (“PFM”), is an independent financial advisory firm registered as a “Municipal Advisor” with the Securities Exchange Commission and Municipal Securities Rulemaking Board. PFM does not underwrite, trade or distribute municipal or other public securities. PFM has assisted the City in connection with the planning, structuring, sale and issuance of the Certificates. PFM is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the information contained in this Official Statement not provided by PFM. The fees of PFM in respect to the Certificates are contingent upon their sale and delivery.

LEGAL MATTERS

All legal matters in connection with the execution and delivery of the Certificates are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Special Counsel’s opinion with respect to the Certificates will be substantially in the form set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and by the City Attorney. Certain matters will be passed upon for the Underwriter by _____. The fees and expenses of Special Counsel, Disclosure Counsel and counsel to the Underwriter are contingent upon the execution and delivery of the Certificates.

TAX MATTERS

The interest with respect to the Certificates is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Certificates other than as expressly described above.

The complete text of the final opinion that Special Counsel expects to deliver upon the delivery of the Certificates is set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL.

UNDERWRITING

_____ (the “Underwriter”) has agreed to purchase the Certificates at a price of \$ _____ (which is equal to the aggregate principal amount of the Certificates of \$ _____ .00, less a net original issue discount of \$ _____, less an Underwriter’s discount of \$ _____). The Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in certificate purchase agreement for the Certificates, including the approval of certain legal matters by counsel and certain other conditions. The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business (“S&P”) has assigned the rating of “___” to the Certificates. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: 55 Water Street, New York, NY 10041, (212) 208-8000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Certificates.

FINANCIAL STATEMENTS

The City’s Audited Financial Statements for fiscal year ended June 30, 2017, and the City’s Auditor’s Report regarding such financial statements, are set forth in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017. The City’s Auditor was not requested to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. No opinion is expressed by the City’s Auditor with respect to any event subsequent to its report. This and prior years annual financial reports can also be obtained at: <https://www.cityofpaloalto.org/gov/depts/asd/reporting.asp>

ADDITIONAL INFORMATION

All of the preceding summaries of the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Property Lease, and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates.

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

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

The City will furnish a certificate dated the date of delivery of the Certificates, from an appropriate officer of the City, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Property Lease, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the City has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Certificates.

The execution and delivery of the Official Statement by the City have been duly authorized by the City Council on behalf of the City.

CITY OF PALO ALTO

By _____
City Manager

APPENDIX A

GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF PALO ALTO AND SANTA CLARA COUNTY

The City

Palo Alto (the “City”) is located in northern Santa Clara County (the “County”), approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City is considered the birthplace of the high technology industry and a center of the Silicon Valley. Stanford University covers 700-acre area in the City, and the City is home to high-tech leaders such as Hewlett-Packard, SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute and Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veteran Affairs’ Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The County

Located at the southern end of the San Francisco Bay, Santa Clara is the most populous county in the San Francisco Bay Area region, and one of the most affluent counties in the United States. Santa Clara County was one of the original counties of California, formed in 1850 at the time of statehood. The County seat is San Jose, the tenth-most populous city in the United States. According to the U.S. Census Bureau, the county has a total area of 1,304 square miles (3,380 km²), of which 1,290 square miles (3,300 km²) is land and 14 square miles (36 km²) (1.1%) is water.

The highly urbanized Santa Clara Valley within the County is also known as Silicon Valley. The County is the headquarters for approximately 6500 high technology companies, including many of the largest tech companies in the world, among them hardware manufacturers AMD, Cisco Systems and Intel, computer and consumer electronics companies Apple Inc. and Hewlett-Packard, and internet companies eBay, Facebook, Google and Yahoo!.

Population

The following table contains the population of the City, the County and the State of California for the last five years.

CITY OF PALO ALTO, SANTA CLARA COUNTY AND STATE OF CALIFORNIA Population

Year	City of Palo Alto	Santa Clara County	State of California
2013	66,688	1,856,416	38,238,492
2014	67,024	1,879,196	38,572,211
2015	67,339	1,903,209	38,915,880
2016	68,134	1,922,619	39,189,035
2017	68,691	1,938,180	39,523,613

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2010-2017, with 2010 Census Benchmark.

Employment

The following table summarizes the historical numbers of workers by industry in the County for the last five years:

SANTA CLARA COUNTY Labor Force and Industry Employment Annual Averages by Industry

	2012	2013	2014	2015	2016 ⁽¹⁾
Total, All Industries	914,800	950,700	991,000	1,028,900	1,060,600
Total Farm	3,300	3,300	3,500	3,700	3,900
Mining and Logging	200	300	300	200	300
Construction	34,100	36,700	38,800	42,900	47,600
Manufacturing	153,700	153,600	156,700	160,200	161,300
Wholesale Trade	34,600	36,000	36,900	36,800	37,400
Retail Trade	81,900	82,500	83,900	85,100	85,000
Transportation, Warehousing & Utilities	12,500	13,400	13,900	14,100	14,800
Information	54,100	58,600	65,600	70,400	74,500
Financial Activities	32,900	33,300	33,800	34,200	35,200
Professional & Business Services	177,200	190,100	201,800	215,200	224,100
Educational & Health Services	135,700	142,600	148,700	154,900	160,600
Leisure & Hospitality	81,300	86,300	90,700	94,500	97,600
Other Services	24,400	25,000	26,000	26,500	27,000
Government	88,700	89,000	90,600	90,100	91,200

Source: California Employment Development Department, based on March 2017 benchmark.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Last available full year data.

The following tables summarize historical employment and unemployment for the County, the State of California and the United States:

SANTA CLARA COUNTY, CALIFORNIA, and UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate ⁽¹⁾
2012	Santa Clara County	910,400	833,700	76,700	8.4%
	California	18,554,800	16,630,100	1,924,700	10.4
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Santa Clara County	923,200	860,100	63,200	6.8%
	California	18,671,600	17,002,900	1,668,700	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	Santa Clara County	995,600	943,800	51,800	5.2%
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	Santa Clara County	1,018,400	976,100	42,300	4.2%
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	146,411,000	5.3
2016 ⁽²⁾	Santa Clara County	1,026,500	987,900	38,600	3.8%
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	148,976,000	4.9

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-2016, and US Department of Labor.

- (1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.
- (2) Latest available full-year data.

Major Employers

The following table lists the top 10 employers within the County as of June 30, 2017.

SANTA CLARA COUNTY
Top 10 Employers
as of June 30, 2017

Employer	Employees	% of Total County Employment
Apple Computer, Inc.	25,000	2.53%
Alphabet Inc.	20,000	2.02
County of Santa Clara	18,244	1.85
Stanford University	16,919	1.71
Cisco Systems Inc.	15,700	1.59
Kaiser Permanente	12,500	1.27
Stanford Healthcare	10,034	1.02
Tesla Motors Inc.	10,000	1.01
Facebook Inc.	9,385	.95
Intel Corp.	8,500	.86
Total Top 10	146,282	14.81%

Source: Santa Clara County 2017 CAFR.

Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

CITY OF PALO ALTO Building Permits and Valuation (Dollars in Thousands)

	2012	2013	2014	2015	2016
<u>Permit Valuation:</u>					
New Single-family	\$ 51,154	\$ 44,914	\$ 53,439	\$ 73,403	\$ 58,795
New Multi-family	3,193	17,243	1,611	68,911	5,764
Res. Alterations/Additions	7,890	31,663	47,974	41,848	36,423
Total Residential	62,238	93,821	103,025	184,163	100,983
Total Nonresidential	73,771	358,254	258,899	277,837	298,797
Total All Building	136,009	452,076	361,925	462,000	399,780
<u>New Dwelling Units:</u>					
Single Family	89	81	93	119	96
Multiple Family	18	100	6	210	30
Total	107	181	99	329	126

SANTA CLARA COUNTY Building Permits and Valuation (Dollars in Thousands)

	2012	2013	2014	2015	2016
<u>Permit Valuation:</u>					
New Single-family	\$ 678,168	\$ 694,884	\$ 594,472	\$ 653,970	\$ 660,301
New Multi-family	558,544	941,420	1,196,127	706,781	564,761
Res. Alterations/Additions	288,105	423,739	439,747	505,844	484,820
Total Residential	1,524,818	2,060,044	2,230,347	1,866,595	1,709,882
Total Nonresidential	1,885,769	6,264,620	2,655,412	3,589,800	4,698,158
Total All Building	3,410,587	8,324,665	4,885,760	5,456,396	6,408,041
<u>New Dwelling Units:</u>					
Single Family	1,432	1,859	1,602	1,710	1,608
Multiple Family	4,245	6,009	8,310	3,906	3,297
Total	5,677	7,868	9,912	5,616	4,905

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

Median Household Income

The following table summarizes the total effective buying income and the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

CITY OF PALO ALTO, SANTA CLARA COUNTY STATE OF CALIFORNIA AND UNITED STATES Median Household Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2013	City of Palo Alto	\$ 3,800,810	\$ 88,552
	Santa Clara County	61,802,913	70,595
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Palo Alto	4,119,935	94,580
	Santa Clara County	66,130,110	75,008
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Palo Alto	4,607,638	103,965
	Santa Clara County	73,637,380	79,345
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Palo Alto	4,797,181	105,019
	Santa Clara County	77,917,425	81,466
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Palo Alto	5,275,790	121,376
	Santa Clara County	85,859,495	88,243
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735

Source: Nielsen, Inc.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017

The Auditor was not requested to consent to the inclusion of its report in this Appendix B and it has not undertaken to update financial statements included in this Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

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APPENDIX C

INVESTMENT POLICY OF THE CITY

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

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APPENDIX E

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

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APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F, concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. 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. Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (as used in this Appendix E, the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's 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 & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' 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 or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 City or the paying agent or bond 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 nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF PALO ALTO (the “City”) in connection with the execution and delivery of \$ _____* Palo Alto 2018 Certificates of Participation (Golf Course Improvement; 2002B Refinancing) (Federally Taxable) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2018, by and among U.S. Bank National Association, as trustee (the “Trustee”), the City and the Palo Alto Public Improvement Corporation (the “Trust Agreement”). Pursuant to Section 10.05 of the Trust Agreement, the City covenants and agree as follows:

Section 1. **Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“*Dissemination Agent*” shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Participating Underwriter*” shall mean any original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“*Rule*” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. **Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

* Preliminary, subject to change.

Section 3. **Provision of Annual Reports.**

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2017-18 Fiscal Year, which is due not later than March 31, 2019, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, as follows, substantially similar to that provided in the corresponding tables and charts in the official statement for the Certificates:

- (i) Table 2—General Fund Reserve Policy;
- (ii) Table 3—Tax Revenues by Source
- (iii) Table 4—Other Revenue Sources
- (iv) Table 5—Assessed Valuations;
- (v) Table 6—Largest Local Secured Property Tax Payers;
- (vi) Table 7—Sales Tax Rates; and
- (vii) Table 8 Property Tax In-Lieu of VLF.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Certificates:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Certificates under the Trust Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Certificate owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid reasonable compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all reasonable expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 13. **Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF PALO ALTO

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Palo Alto, California

Name of Issue: \$ _____ *
CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(Golf Course Improvement Project; 2002B Refinancing)
(Federally Taxable) Green Bonds

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing date], furnished by the City in connection with the Issue. The City anticipates that the Annual Report will be filed by _____.

Date: _____

CITY OF PALO ALTO, as Dissemination Agent

By _____
Authorized Officer

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Attachment B

NOT YET APPROVED

Attachment B

PALO ALTO PUBLIC IMPROVEMENT CORPORATION

Resolution No. _____

A Resolution Approving, Authorizing and Directing Execution of
Certain Lease Refinancing Documents and Authorizing and Directing
Certain Actions with Respect Thereto

RESOLVED, by the Palo Alto Public Improvement Corporation (the "Corporation"):

R E C I T A L S

WHEREAS, the Corporation has heretofore leased the Palo Alto Civic Center to the City of Palo Alto, a chartered municipal corporation duly organized and existing under the Constitution and laws of the State of California (the "City"), pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City desires to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road (the "Golf Course Improvements");

NOT YET APPROVED

Attachment B

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (the “Certificates”);

WHEREAS, the City has additionally authorized the City Manager or a designee appointed by the City Manager (e.g. Administrative Services Director) to add a “Green Bonds” designation to the name of the Certificates;

WHEREAS, the City has further agreed to lease certain real property, as more particularly described in Exhibit B of the Lease Agreement (defined below) (the “Leased Property”), to the Corporation under a Property Lease by and between the City, as lessor, and the Corporation, as lessee (the “Property Lease”), and the Corporation proposes to lease the Leased Property back to the City under a Lease Agreement, by and between the City, as lessee, and the Corporation, as lessor (the “Lease Agreement”), in consideration of the payment by the City of semi-annual lease payments;

WHEREAS, the Corporation further proposes to assign its right to receive such lease payments to U.S. Bank National Association, as trustee (the “Trustee”), under an Assignment Agreement (the “Assignment Agreement”), by and between the Corporation and the Trustee, and in consideration of such assignment the Trustee has agreed to execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments, in accordance with a Trust Agreement to be executed by and among the Trustee, the City and the Corporation (the “Trust Agreement”);

WHEREAS, in connection therewith, it is in the public interest and for the public benefit that the Corporation authorize and direct execution of the Property Lease, the Lease Agreement, the Trust Agreement and certain other financing documents in connection therewith; and

WHEREAS, the documents below specified have been filed with the Corporation, and the members of the Corporation have reviewed said documents.

NOW, THEREFORE, the Council of the City of Palo Alto RESOLVES as follows:

Section 1. The below-enumerated documents be and are hereby approved, and the President and the Vice President are hereby separately authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the Secretary of the Corporation is hereby authorized and directed to attest to such official's signature:

(a) The Property Lease, relating to the lease of the Leased Property by the City to the Corporation, by and between the City, as lessor, and the Corporation, as lessee;

NOT YET APPROVED

Attachment B

(b) The Lease Agreement, relating to the lease of the Leased Property by the Corporation back to the City, between the Corporation, as lessor, and the City, as lessee;

(c) The Trust Agreement, by and among the Corporation, the City and the Trustee, relating to the execution and delivery of the Certificates, evidencing the fractional interests of the owners thereof in lease payments to be made by the City under the Lease Agreement;

(d) The Assignment Agreement, by and between the Corporation and the Trustee, pursuant to which the Corporation will assign certain of its rights under the Lease Agreement, including its right to receive lease payments thereunder, to the Trustee; and

(e) A Termination Agreement, relating to the termination of the 2002 Lease, between the Corporation and the City and acknowledged by the 2002 Trustee; and

(f) A Purchase Agreement among the City, the Corporation and _____, as underwriter of the Certificates, specifying the terms and conditions upon which the Certificates are to be sold to the Underwriter.

Section 2. The President, Vice President, Executive Director, Treasurer, Secretary and other officials of the Corporation are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the lease financing herein authorized.

I hereby certify that the foregoing resolution was duly adopted at a meeting of the Palo Alto Public Improvement Corporation held on the 16th day of April, 2018, by the following vote:

AYES, and in favor of:

NOES:

ABSENT:

Secretary

APPROVED AS TO FORM:

Jones Hall, A Professional Law Corporation
Bond Counsel

Attachment B-1

Jones Hall Draft 2018-03-21

PLEASE RECORD, AND
WHEN RECORDED, RETURN TO:

Christopher K. Lynch, Esq.
Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111

ASSIGNMENT AGREEMENT

Dated as of [] 1, 2018

by and between

the

PALO ALTO PUBLIC IMPROVEMENT CORPORATION

and

**U.S. BANK NATIONAL ASSOCIATION,
as trustee**

ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT is dated as of [] 1, 2018, by and between the PALO ALTO PUBLIC IMPROVEMENT CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee"), under the Trust Agreement (as defined herein), and as 2002 Trustee (as defined herein).

In the joint and mutual exercise of their powers, in consideration of the mutual covenants herein contained, and for other valuable consideration, the parties hereto recite and agree as follows:

Section 1. Recitals.

WHEREAS, the Corporation has heretofore leased the Palo Alto Civic Center, to the City of Palo Alto, a chartered municipal corporation duly organized and existing under the Constitution and laws of the State of California (the "City"), pursuant to that certain lease agreement, dated as of January 1, 2002, by and between the Corporation, as lessor, and the City, as lessee (the "2002 Lease") for the purposes of refinancing that certain lease agreement, dated as of March 1, 1992, by and between the Corporation, as lessor, and the City, as lessee (the "1992 Lease"), refinancing certificates of participation executed and delivered in the original amount of \$7,670,000 (the "1992 Certificates"), and financing the costs of certain Parking Structure Improvements, as defined in the 2002 Lease;

WHEREAS, in order to provide funding for the foregoing objectives, the City contemporaneously caused execution and delivery of (1) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002A (Tax-Exempt) in the original amount of \$3,500,000 (the "2002A Certificates") and (2) City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable) in the original amount of \$3,555,000 (the "2002B Certificates") pursuant to that certain Trust Agreement, dated as of January 1, 2002 (the "2002 Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "2002 Trustee"), the Corporation and the City;

WHEREAS, in order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City now wishes to refinance its lease payment obligation under the 2002 Lease and to cause the prepayment of the outstanding 2002B Certificates (the 2002A Certificates are no longer outstanding);

WHEREAS, the City further desires to finance the costs of making certain improvements to the Palo Alto Municipal Golf Course, located at 1875 Embarcadero Road (the "Golf Course Improvements");

WHEREAS, in order to refinance the 2002 Lease and the 2002B Certificates, and to finance the Golf Course Improvements, the City has determined to provide for the execution

and delivery of City of Palo Alto 2018 Certificates of Participation (Golf Course Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "Certificates");

WHEREAS, in connection with the refinancing of the 2002 Lease, the 2002 Lease has been duly terminated pursuant to a Termination Agreement, dated as of [] [], 2018, between the City and the Corporation, and acknowledged by the 2002 Trustee;

WHEREAS, the City has concurrently leased certain real property, as more particularly described in Exhibit A hereto (the "Leased Property") to the Corporation under a Property Lease, dated as of [] 1, 2018, by and between the City, as Lessor, and the Corporation, as Lessee (the "Property Lease"), and the Corporation has leased the Leased Property back to the City under a Lease Agreement, dated as of [] 1, 2018, by and between the City, as lessee and the Corporation, as lessor (the "Lease Agreement"), in consideration of the payment by the City of semi-annual lease payments;

WHEREAS, the Corporation desires to assign its right to receive such lease payments to the Trustee pursuant to this Assignment Agreement, and in consideration of such assignment the Trustee shall execute and deliver the Certificates, each evidencing a direct, undivided fractional interest in such lease payments in accordance with a Trust Agreement, dated as of [] 1, 2018, by and among the City, the Corporation and the Trustee (the "Trust Agreement"); and

WHEREAS, each of the parties has authority to enter into this Assignment Agreement, and has taken all actions necessary to authorize its respective officers to execute it.

Section 2. Assignment.

The Corporation hereby transfers, assigns and sets over to the Trustee, for the benefit of the Owners of the Certificates executed and delivered under the Trust Agreement, all of the Corporation's rights under the Property Lease and the Lease Agreement (excepting only the Corporation's rights under Sections 4.6, 5.7, 7.3 and 9.4 of the Lease Agreement), including without limitation (1) the right to receive and collect all of the Lease Payments (including prepayments thereof) from the City under the Lease Agreement, (2) the right to receive and collect any proceeds of any insurance maintained thereunder with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property, and (3) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments, prepayments thereof and any other amounts required to be deposited in the Lease Payment Fund established under the Trust Agreement, or (ii) otherwise to protect the interests of the Certificate Owners in the event of a default by the City under the Lease Agreement. All rights assigned by the Corporation shall be administered by the Trustee in accordance with the provisions of the Trust Agreement and for the equal and proportionate benefit of the Owners of Certificates. Such assignment shall be absolute and irrevocable, and shall be without recourse to the Corporation.

Section 3. Termination of Rights.

The Trustee, in its capacity as successor trustee to the 2002 Trustee, hereby acknowledges the termination of its rights under the 2002 Lease as assignee of the Corporation pursuant to that certain Assignment Agreement dated as of January 1, 2002, by and between the Corporation and the Trustee.

Section 4. Acceptance.

The Trustee hereby accepts the assignments made herein for the purpose of securing, equally and proportionately, the payments due pursuant to the Lease Agreement and Trust Agreement to, and the rights under the Lease Agreement and Trust Agreement of, the Owners of the Certificates delivered pursuant to the Trust Agreement, all subject to the provisions of the Trust Agreement.

Section 5. Conditions.

This Assignment Agreement shall confer no rights or impose no duties upon the Trustee beyond those expressly provided in the Lease Agreement and Trust Agreement. The Trustee has not warranted the accuracy of the recitals hereto.

Section 6. Execution.

This Assignment Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

* * * * *

IN WITNESS WHEREOF, the parties have executed this Assignment Agreement by their officers thereunto duly authorized as of the day and year first written above.

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION

[Patrick Burt]
President

Attest:

[Beth Minor]
Secretary

U.S. BANK NATIONAL ASSOCIATION, as
Trustee, and as successor to the 2002 Trustee

Authorized Officer

STATE OF CALIFORNIA)
) ss
COUNTY OF _____)

On _____ before me, _____, Notary Public,
personally appeared _____, personally known to me or proved to me
on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

EXHIBIT A

Description of the Leased Property

Attachment C

Golf Course Reconstruction and Refinancing of the 2002 Downtown Parking Improvement Certificate of Participation Bonds Estimated Cost of Issuance (COI) Details

	Refunding of 2002 COP Bonds	2018 Golf Course COP Bonds	Total COI
Cost of Issuance Details:			
Bond Counsel (Jones Hall), includes expenses	\$ 3,190	\$ 44,310	\$ 47,500
Disclosure Counsel (Quint & Thimmig, LLP)	2,014	27,986	30,000
Municipal (Financial) Advisor (Public Financial Management, Inc.), includes expenses	2,955	41,046	44,001
Trustee (U.S. Bank)	762	10,588	11,350
Title	303	4,202	4,505
Rating Agency (Standard & Poor's)	1,108	15,392	16,500
Printer	201	2,799	3,000
Verification Agent	168	2,332	2,500
Miscellaneous Fees	4,488	23,052	27,540
Sub-total	15,189	171,707	186,896
Underwriters' Discount (Estimated)	3,661	41,389	45,050
Total Estimated Cost of Issuance	\$ 18,850	\$ 213,096	\$ 231,946