



City of Palo Alto City Council Staff Report

(ID # 9689)

Report Type: Action Items

Meeting Date: 10/15/2018

Summary Title: Execution and Delivery of California Avenue Parking Garage Bonds Certificates of Participation

Title: Adoption of a Resolution Authorizing the Delivery and Sale of Certificates of Participation (COPs) in a Principal Amount Not to Exceed \$50 Million to Finance the Construction of the California Avenue Parking Garage; Declaring the Intention to Reimburse Expenditures Related to the California Avenue Parking Garage from Proceeds of the COPs; Approving, Authorizing and Directing the Execution of Certain Lease Financing Documents; Approving a Preliminary Official Statement; and Authorizing and Directing Certain Related Actions

From: City Manager

Lead Department: Administrative Services

Recommendation

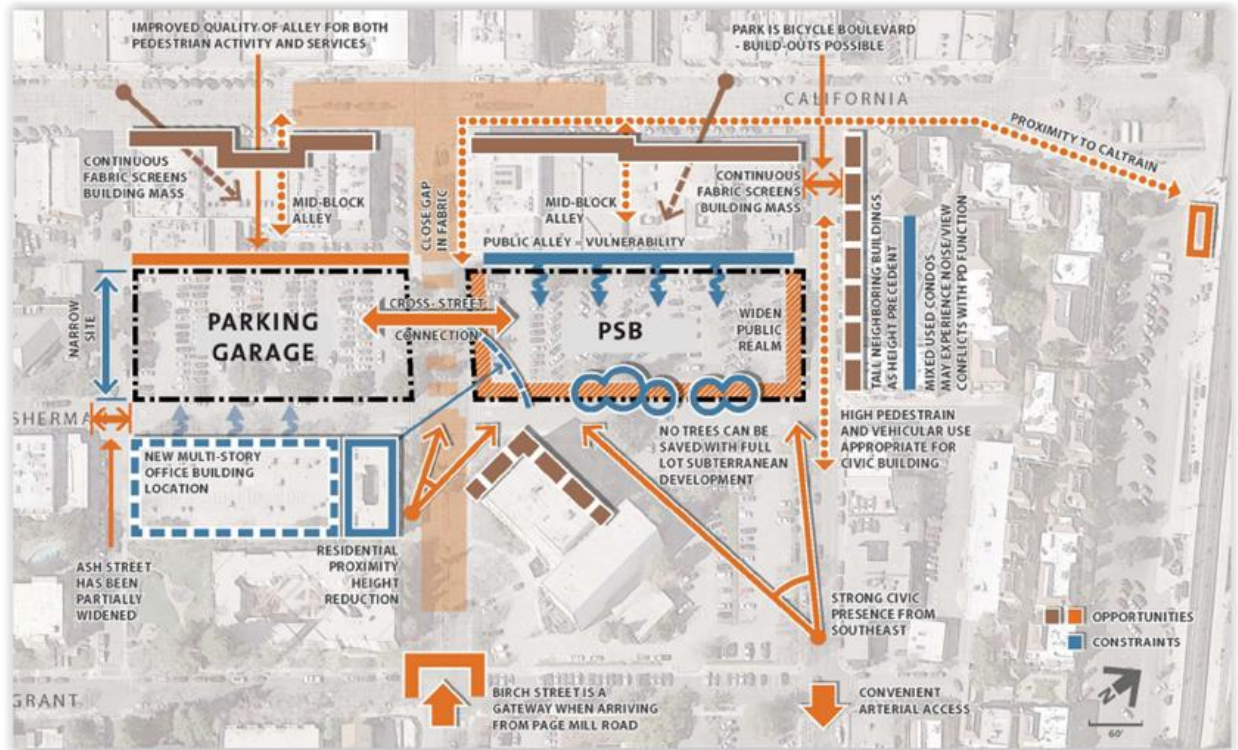
1. Staff recommends that the **City Council**:
 - a. Adopt a Resolution Approving, Authorizing, and Directing Execution of Certain Lease Financing Documents, Approving a Preliminary Official Statement, Declaring the Intention to Reimburse Expenditures, and Authorizing and Directing Certain Actions with Respect Thereto.
 - b. Authorize execution and delivery of one or more series of Certificates of Participation (COPs) in an amount not to exceed \$50 million to finance the California Avenue Parking Garage construction.
2. Staff recommends that the Council, acting as the **Board of Directors of the Palo Alto Public Improvement Corporation** (Corporation):
 - a. 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

The California Avenue Parking Garage is part of the City Council Infrastructure Plan. Construction of the garage is a key step in the delivery of a new Public Safety Building (PSB). The PSB will be built on the adjacent property at 250 Sherman Avenue that currently provides approximately 150 public parking stalls. The proposed parking garage, at 350 Sherman Avenue, will be located on the City's existing surface Parking Lot C-7 (see following map). The parking garage will be four levels above grade and two stories below grade, with 636 public parking spaces serving the needs of the California Avenue business district. The new garage will replace existing stalls at the two locations and provide approximately 310 new parking stalls to the California Avenue business district. The parking structure will fill its site to nearly the property lines and utilize strategies such as a signature exterior grand staircase and landscaped setback (on Birch Street), a widened sidewalk (on Ash Street), and a partial-block pedestrian arcade leading to a mid-block paseo (on Jacaranda Lane) to provide appropriately scaled site amenities. Construction will involve a cut-off wall to limit groundwater impact, cast-in-place post-tensioned structural concrete, and provisions for an integrated solar canopy. The height of the California Avenue Parking Garage will be approximately 49'-0" above sidewalk level to the top of roof-mounted photovoltaic (PV) panels.

As a public-serving amenity, the garage's key design imperatives include ease of wayfinding, generosity toward the pedestrian environment, and a perimeter skin that offers an appropriate visual character when viewed by its neighbors



Discussion

1) California Avenue Parking Garage

Council approval is required to sell an amount not to exceed \$50 million in COPs through a competitive sale process in November/December 2018. Staff is recommending the Council delegate to the City Manager the final determination on the mix of tax-exempt COPs or taxable securities. The execution and delivery of a single series of tax-exempt COPs (where the interest with respect to the COPs when received by investors would not be subject to federal income taxation) would require that the facility remain for public use during the term of the debt. Although taxable securities (where the interest received by investors is included in the gross income for federal tax law purposes) impose a greater borrowing cost on the City, they would also offer greater operational flexibility for the California Avenue Parking Garage. Staff is evaluating the costs and benefits of issuing a portion of the COPs as taxable securities to allow the flexibility, over the next 30 year, for private use of a portion of the garage (e.g. leasing a floor of the garage). If Council adopts the resolution, staff will work with the City Manager who will be authorized to determine whether it is in the City's best interests to finance a portion of the California Avenue Parking Garage project on a taxable basis.

To minimize interest expense, staff delivered a rating presentation to Standard and Poor's (S&P) on September 17th. City staff, along with the City's bond counsel and financial advisor, participated in the presentation. Information such as the City's economic overview, the General Fund (GF) financial standing, the ability to pay the debt service, and the California Avenue Parking Garage project were discussed. I'm glad to report S&P gave the highest possible rating for COP bonds; AA+. The high rating from S&P represents their opinion that the COPs will be a

safe issue for investors and will produce lower interest costs for the City. The bond interest rates and costs cited in this report are based on this rating.

Because municipal COPs are commonly used investment vehicles in the financial community and is the COPs are expected to be highly rated (AA+ by Standard and Poor's), the City's municipal advisor recommends a competitive sale to optimize the chances of a successful sale at the lowest cost to the City. The COPs will be offered at a competitive sale around November/December 2018. A competitive sale means that underwriters or investment banking firms will be asked to bid on the COPs at a particular time and day. The bidding process is designed to achieve the lowest interest cost for the City and to maintain an open process. Proceeds from the sale will be delivered to the City in early or mid-December. As in prior COP issues, the City will contract with a trustee, in this case U.S. Bank National Association (Trustee) to make debt service payments and hold all the COP proceeds in the required funds.

2) 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. property and sales tax revenues, etc.). The financing structure will involve the following:

- a. The City will initially lease an asset, most likely the Rinconada Library during the California Avenue Parking Garage construction period and, upon completion of the garage, the newly built California Avenue Parking Garage (Leased Property), to a lease counterparty (the Palo Alto Public Improvement Corporation) under a Property Lease **(Attachment A-1)**. The City established the Palo Alto Public Improvement Corporation (Corporation) as a separate legal entity in 1983 to help the City with COPs. Members of the City Council are the Board members of the Corporation.
- b. Under a Lease Agreement **(Attachment A-2)**, the Corporation will lease the Leased Property back to the City. 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 the 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-3)**, 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 of the parking garage and it will also establish a fund for the City's lease payments.

- e. The City will issue an official notice of sale to the investment community soliciting bids to purchase the COPs (**Attachment A-4**). The sale proceeds of the COPs will be used to construct the California Avenue Parking Garage and pay issuance costs and capitalized interest during the California Avenue Parking Garage construction period.
- f. To market the COPs, the City's disclosure counsel has prepared a Preliminary Official Statement (POS) and the City's municipal advisor will distribute the POS to potential investors (**Attachment A-5**). The POS is the offering document for municipal securities, in preliminary form, which does not contain pricing information. The POS discloses the security for the COPs and describes the financial condition of the City's general fund. 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 POS. 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, they 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 POS 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.

3) Approval of Documents

Staff from the Administrative Services and Public Works Departments and the City Attorney's Office has worked with the City's municipal financial 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.

The following documents need the Council's approval before the COPs can be sold by a competitive sale in November/December 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, Declaring the Intention to Reimburse Expenditures, 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 POS containing information material to the offering and sale of the COPs. The documents staff will sign with Council's approval are:

- | | |
|--|-------------------------|
| • Property Lease | (Attachment A-1) |
| • Lease Agreement | (Attachment A-2) |
| • Trust Agreement | (Attachment A-3) |
| • Notice of Sale | (Attachment A-4) |
| • Preliminary Official Statement (POS) | (Attachment A-5) |

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) |
| • Property Lease | (Attachment A-1) |
| • Lease Agreement | (Attachment A-2) |
| • Trust Agreement | (Attachment A-3) |

Timeline (2018)

| | |
|---|---|
| September 17 th | Standard and Poor's (S&P) Rating Presentation |
| Week of October 1 st | Receive S&P's Rating |
| Week of November 26 th | Final Official Statement Printed and Posted |
| Week of December 3 rd | Bond Pricing |
| Week of December 10 th or 17 th | Closing |

Resource Impact

Precise project costs will not be known until the results of a request for proposals are received for the California Avenue Parking Garage construction costs. Precise debt service payments will not be known until competitive bids are received from the underwriting. Based on the City Engineer's estimate of construction costs, the COPs are expected to finance approximately \$39.5 million of the California Avenue Parking Garage project costs. Assuming a 30 year amortization period, a tax-exempt bond issuance, an estimated True Interest Cost (TIC) of 3.8 percent, and \$42.63 million in total bond proceeds, the estimated average annual lease/debt service payment is around \$2.417 million. An alternative that is being evaluated is to issue 75 percent tax-exempt bonds and 25 percent taxable bonds. This, for example, will give the City the flexibility, in the future, to lease a floor of the garage to a private entity. Under this scenario, an estimated True Interest Cost (TIC) of 4.0 percent, and with a similar total bond proceeds (\$42.63 million) and an estimated average annual lease/debt service payment is around \$2.454 million. This will result in annual additional debt service payment of \$37 thousand or \$1.1 million over the 30 year life of the bonds. Beside the additional interest cost in issuing a mix of tax-exempt and taxable bonds, other issues such as the salability of taxable municipal bonds with a competitive sale and getting the minimum of three bids that is required will be evaluated. For the latter, a new tax rule that went into effect on June 7, 2017, requires the issuer receives at least three bids for the bonds from reasonably competitive bidders.

Issuance costs (underwriter's fees, bond and disclosure counsel fees, municipal advisory fees, rating agency fees, 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 tax-exempt bond issuance cost is \$410,485 (cost breakdown is shown in **Attachment C**). For a mix bond issuance, the issuance cost will be a few thousand more. In addition, \$2.7 million in capitalized interest costs will be also be bond financed.

Policy Implications

This report is consistent with prior policy direction received from the Council.

Environmental Review

An Environmental Impact Report for the parking structure was prepared as part of the Public Safety Building Project and was certified by Council on June 11, 2018 (ID # 8967), by adoption of Resolution No. 9772.

Attachments:

- Attachment A: City Resolution Approving, Authorizing & Directing Execution of Certain Lease Financing Documents
- Attachment A-1: Property Lease
- Attachment A-2: Lease Agreement
- Attachment A-3: Trust Agreement
- Attachment A-4: Notice of Sale
- Attachment A-5: 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

Attachment A

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, DECLARING THE INTENTION TO REIMBURSE EXPENDITURES, AND AUTHORIZING AND DIRECTING CERTAIN RELATED ACTIONS

WHEREAS, the City desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

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 exempt from taxation under federal tax law; 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 any such officer (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 subject to taxation under federal tax law;

WHEREAS, the City further proposes to lease a City asset, initially the Rinconada Library, located at 1213 Newell Road (or another property identified by staff) (the "Leased Property"), to 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"), 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 (the "Lease Payments");

WHEREAS, as described in the Property Lease and the Lease Agreement, upon the construction and the substantial readiness of the California Avenue Parking Garage for use and occupancy by the City, as shall be evidenced by a certificate of completion delivered by the City, the California Avenue Parking Garage will be the Leased Property subject to the Property Lease and the Lease Agreement, and the Rinconada Library will be released;

WHEREAS, the City further proposes to cause the Corporation to assign its right to receive the 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 the 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, 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");

WHEREAS, the documents described below have been filed with the City, the members of the City Council, with the aid of its staff, have reviewed said documents, and it is in the public interest and for the public benefit that the City authorize and direct execution of such documents;

WHEREAS, United States Income Tax Regulations section 1.150-2 provides generally that proceeds of tax-exempt obligations are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such obligations unless certain procedures are followed, one of which is a requirement that prior to the payment of any such expenditure, the issuer declares an intention to reimburse such expenditure;

WHEREAS, it is in the public interest and for the public benefit that the City declares its official intent to reimburse expenditures related to the acquisition and construction of the California Avenue Parking Garage; and

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.

NOW, THEREFORE, the Council of the City of Palo Alto does hereby **RESOLVE**, as follows:

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 the Lease Payments to be made by the City under the Lease Agreement; and

(d) a continuing disclosure certificate under which the City will agree to provide certain information on a continuing basis.

2. The Council hereby authorizes the execution and delivery of the Certificates for the purpose of providing funds to finance the acquisition and construction of the California Avenue

Parking Garage. The aggregate principal amount of the Certificates shall not exceed \$50,000,000, the true interest cost of the Certificates may not exceed 5.0% and the Underwriter's discount may not exceed 1.5% of the principal amount of the Certificates.

3. The City Manager or a designee appointed by any such officer (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 subject to taxation under federal tax law to finance all or a portion of the California Avenue Parking Garage, either in lieu of or in addition to the tax-exempt series. If the City Manager or a designee appointed by any such officer determines that a second series should be executed and delivered, all references to the Certificates in this resolution shall refer to both series and the City Council hereby authorizes any necessary changes to the documents approved by this Resolution to reflect such second series.

4. The Council hereby authorizes and directs the competitive public sale of the Certificates. The Certificates shall be sold in accordance with the Official Notice of Sale in substantially the form on file with the City, together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The Authorized Officers are hereby authorized and directed to accept the best bid for the sale of the Certificates, as determined in accordance with the Notice of Sale. Pursuant to Section 53692 of the Government Code, Jones Hall, as bond counsel, is hereby authorized and directed to cause a Notice of Intention, in form and substance acceptable to said firm, to be published in the manner required by applicable law.

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 revise the identity of the initial Leased Property as necessary in order to accomplish the purposes of this Resolution. 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.

6. The City hereby approves the Preliminary Official Statement describing the Certificates, in the form on file with the Director of Administrative Services. The City's municipal advisor, PFM Financial Advisors LLC, 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 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 and (b) approve any changes in or additions to cause such Preliminary Official Statement to be put in final form.

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.

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

9. The City hereby declares that it reasonably expects (i) to pay certain costs of acquiring and constructing the California Avenue Parking Garage prior to the date of execution and delivery of the Certificates, and (ii) to use a portion of the proceeds of the Certificates for reimbursement of expenditures related to the acquisition and construction of the California Avenue Parking Garage that are paid before the date of execution and delivery of the Certificates.

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

11. The City hereby approves the selection of Jones Hall, A Professional Law Corporation, as bond counsel, Quint & Thimmig LLP, as disclosure counsel, and PFM Financial Advisors LLC, as financial advisor. Each Authorized Officer and other appropriate officials of the City are authorized to execute a professional services agreement with such firms in connection with the proposed financing, and the execution of such agreements on behalf of the City shall be conclusive evidence of such approval.

12. This resolution shall take effect immediately upon its adoption.

* * * * *

INTRODUCED AND PASSED: October 15, 2018

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

APPROVED AS TO FORM:
Jones Hall,
A Professional Law Corporation

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

APPROVED:

Mayor

City Manager

Director of Public Works

Director of Administrative Services

City Attorney

APPENDIX A

Government Code Section 5852.1 Disclosure

The following information consists of estimates that have been provided by the City's municipal advisor which has been represented by such party to have been provided in good faith:

(A) True Interest Cost of the Certificates: All Tax-Exempt - 3.8354% and 75% Tax-Exempt and 25% Taxable - 3.9698%

(B) Finance Charge of the Certificates (Sum of all fees/charges paid to third parties): All Tax-Exempt - \$410,485 and 75% Tax-Exempt and 25% Taxable - \$417,385

(C) Net Proceeds to be Received (net of finance charges, reserves and capitalized interest, if any): \$39,500,000.00

(D) Total Payment Amount Through Maturity: All Tax-Exempt - \$72,441,083 and 75% Tax-Exempt and 25% Taxable - \$73,548,855

The foregoing estimates constitute good faith estimates only. They assume either one series of tax-exempt bonds or two series of Certificates are sold, one tax-exempt (75% of the principal amount) and one taxable (25% of the principal amount). The principal amount of the Certificates, the true interest cost of the Certificates, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Certificates being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Certificates sold being different from the estimated amount used for purposes of such estimates, (c) the actual amortization of the Certificates being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Certificates being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City's financing plan (including the mix of tax-exempt and taxable Certificates), or a combination of such factors. The actual date of sale of the Certificates and the actual principal amount of Certificates sold will be determined by the City based on the timing of the need for proceeds of the Certificates and other factors. The actual interest rates borne by the Certificates will depend on market interest rates at the time of sale thereof. The actual amortization of the Certificates will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.

Attachment A-1

RECORDING REQUESTED BY, AND
WHEN RECORDED, RETURN TO:

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

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 27383
OF THE CALIFORNIA GOVERNMENT CODE.

PROPERTY LEASE

Dated as of [____] 1, 2018

by and between the

**CITY OF PALO ALTO,
as Lessor**

and the

**PALO ALTO PUBLIC IMPROVEMENT CORPORATION,
as Lessee**

TABLE OF CONTENTS

PROPERTY LEASE

ARTICLE I:

DEFINITIONS AND RULES OF CONSTRUCTION:

| | |
|--|---|
| Section 1.01. Definitions..... | 2 |
| Section 1.02. Article and Section Headings. | 2 |
| Section 1.03. References to Agreement. | 2 |
| Section 1.04. Number and Gender..... | 3 |

ARTICLE II:

REPRESENTATIONS, COVENANTS AND WARRANTIES:

| | |
|--|---|
| Section 2.01. Representations, Covenants and Warranties of the City..... | 4 |
| Section 2.02. Representations, Covenants and Warranties of Corporation. | 4 |

ARTICLE III:

'AGREEMENT TO LEASE; TERM OF':

'PROPERTY LEASE; PROPERTY LEASE PAYMENT':

| | |
|--|---|
| Section 3.01. Lease. | 6 |
| Section 3.02. Term. | 6 |
| Section 3.03. Property Lease Payment. | 6 |
| Section 3.04. Title. | 6 |
| Section 3.05. No Merger. | 6 |
| Section 3.06. Substitution of Leased Property..... | 6 |

ARTICLE IV:

'EMINENT DOMAIN; NET PROCEEDS':

| | |
|--|---|
| Section 4.01. Eminent Domain. | 8 |
| Section 4.02. Application of Net Proceeds..... | 8 |

ARTICLE V:

MISCELLANEOUS:

| | |
|--|----|
| Section 5.01. Liens..... | 9 |
| Section 5.02. Assignment and Subleasing by the Corporation. | 9 |
| Section 5.03. Amendment. | 9 |
| Section 5.04. Notices. | 9 |
| Section 5.05. Binding Effect. | 9 |
| Section 5.06. Severability..... | 10 |
| Section 5.07. Further Assurances and Corrective Instruments..... | 10 |
| Section 5.08. Execution in Counterparts. | 10 |
| Section 5.09. Applicable Law..... | 10 |
| Section 5.10. Corporation and City Representatives..... | 10 |
| Section 5.11. Captions..... | 10 |

| | |
|--|-----|
| EXHIBIT A DESCRIPTION OF LEASED PROPERTY | A-1 |
|--|-----|

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 City desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

WHEREAS, the City shall lease a City asset, initially the Rinconada Library, 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") which is recorded concurrently herewith, 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") which is recorded concurrently herewith, 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.

"California Avenue Parking Garage" means the parking garage to be located at 350 Sherman Avenue.

"Lease Agreement" means the Lease Agreement, dated as of [____] 1, 2018, and recorded concurrently herewith, 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 (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 November 1, 20[48], unless such term is extended as hereinafter provided. If on November 1, 20[48], 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 November 1, 20[58]). If prior to November 1, 20[48], 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.

Section 3.06. Substitution of Leased Property. As set forth in Section 3.5 of the Lease Agreement, upon Final Completion (as defined in the Lease Agreement) of the California Avenue Parking Garage, the City shall have the absolute right to make the California Avenue Parking Garage and its related site, as described in Exhibit A hereto, the Leased Property subject to this Property Lease and the Lease Agreement, and to release the Rinconada Library from this Property Lease and the Lease Agreement. The City shall effectuate such release by (1) certifying, in a certificate of completion provided to the Trustee, that the Final Completion of the California Avenue Parking Garage has occurred and (2) causing a Notice of Substitution

and Release of Leased Property, substantially in the form attached as Exhibit D to the Lease Agreement, to be recorded in the real property records of Santa Clara County. Subsequent to the execution and recordation of such Notice of Substitution and Release of Leased Property, subject to any future authorized substitution or release of the Leased Property pursuant to Section 3.5 and 3.6 of the Lease Agreement, references to the Leased Property herein shall be deemed to refer to the California Avenue Parking Garage and the related site and shall not be deemed to refer to the Rinconada Library so released.

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, as of the date first above written.

CITY OF PALO ALTO, as Lessor

By _____
Kiely Nose
Administrative Services Director

Attest:

By _____
Beth Minor
City Clerk

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION, as Lessee

By _____
Liz Kniss
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

The land referred to herein is situated in the State of California, County of Santa Clara, City of Palo Alto and described as follows:

Initial Leased Property: Rinconada Library (APN: 003-47-020)

The Rinconada Library (formerly the Main Library), was designed by Edward Durell Stone, opened in 1958 following a voter approved bond measure that also funded the construction of the Mitchell Park Library. The library is located on Newell Road across from the Palo Alto Art Center. The building is 28,716 square feet, including a 5,000 square foot basement. This library has the largest collection in the system, including the principal reference collection and the archives of the Palo Alto Historical Association. It serves primarily adults and teens and has a very small children's collection.

While the building has received small remodels over the years, it needed a total renovation to bring it up to current codes and standards and to provide needed spaces to accommodate needs of its users. In 2014, over \$21.7 million renovation occurred that was funded by a voter approved \$76 million General Obligation bonds. The renovation brought the building to current codes and standard and included significant seismic improvements. A new wing was build off of south entrance with meeting room seating 100, added were additional restrooms, four small group study rooms off the ends of the reading room, a dedicated room for teens, upgraded lighting and electrical systems to support use of technology, new mechanical systems, including radiant heating and cooling system in the floor, and new carpet and paint. The library project area has approximately 175 trees, of these, over two dozen trees were removed and/or relocated with an equal number of new trees being planted. Some of the trees on the site were removed due to poor health or due to conflicts with other neighboring trees, other conflicted with the new geothermal wells and piping while others were removed to accommodate the project site improvements.

Leased Property Upon Final Completion: California Avenue Parking Garage (APN: 124-33-059)

The California Avenue Parking Garage is part of the City Council Infrastructure Plan. Construction of the garage is a key step in the delivery of a new Public Safety Building (PSB). The PSB will be built on the adjacent property at 250 Sherman Avenue that currently provides approximately 150 public parking stalls. The proposed parking garage, at 350 Sherman Avenue, will be located on the City's existing surface Parking Lot C-7. The parking garage will be four levels above grade and two stories below grade, with 636 public parking spaces serving the needs of the California Avenue business district. The new garage will replace existing stalls at the two locations and provide approximately 310 new parking stalls to the California Avenue business district. The parking structure will fill its site to nearly the property lines and utilize strategies such as a signature exterior grand staircase and landscaped setback (on Birch Street), a widened sidewalk (on Ash Street), and a partial-block pedestrian arcade leading to a mid-

block paseo (on Jacaranda Lane) to provide appropriately scaled site amenities. Construction will involve a cut-off wall to limit groundwater impact, cast-in-place post-tensioned structural concrete, and provisions for an integrated solar canopy. The height of the California Avenue Parking Garage will be approximately 49'-0" above sidewalk level to the top of roof-mounted photovoltaic (PV) panels.

As a public-serving amenity, the garage's key design imperatives include ease of wayfinding, generosity toward the pedestrian environment, and a perimeter skin that offers an appropriate visual character when viewed by its neighbors

Attachment A-2

RECORDING REQUESTED BY, AND
WHEN RECORDED, RETURN TO:

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

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 27383
OF THE CALIFORNIA GOVERNMENT CODE.

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

TABLE OF CONTENTS

LEASE AGREEMENT

ARTICLE I DEFINITIONS AND EXHIBITS

| | | |
|--------------|-----------------------------------|---|
| Section 1.1. | Definitions..... | 2 |
| Section 1.2. | Article and Section Headings..... | 3 |
| Section 1.3. | References to Agreement..... | 4 |
| Section 1.4. | Number and Gender..... | 4 |
| Section 1.5. | Exhibits..... | 4 |

ARTICLE II REPRESENTATIONS, COVENANTS AND WARRANTIES

| | | |
|--------------|---|---|
| Section 2.1. | Representations, Covenants and Warranties of the City..... | 4 |
| Section 2.2. | Representations, Covenants and Warranties of Corporation..... | 4 |

ARTICLE III DEPOSIT OF MONEYS; ACQUISITION AND CONSTRUCTION OF THE CALIFORNIA AVENUE PARKING GARAGE; SUBSTITUTION AND REMOVAL OF LEASED PROPERTY

| | | |
|--------------|---|---|
| Section 3.1. | Deposit of Moneys..... | 6 |
| Section 3.2. | Acquisition and Construction of the California Avenue Parking Garage..... | 6 |
| Section 3.3. | Payment of Parking Garage Costs..... | 6 |
| Section 3.4. | Payment of Costs of Issuance..... | 6 |
| Section 3.5. | Substitution of Leased Property..... | 6 |
| Section 3.6. | Removal of Property from Leased Property..... | 7 |

ARTICLE IV AGREEMENT TO LEASE; TERM OF LEASE AGREEMENT; LEASE PAYMENTS

| | | |
|--------------|------------------------------|----|
| Section 4.1. | Agreement to Lease..... | 9 |
| Section 4.2. | Term of Lease Agreement..... | 9 |
| Section 4.3. | Lease Payments..... | 9 |
| Section 4.4. | Quiet Enjoyment..... | 10 |
| Section 4.5. | Title..... | 11 |
| Section 4.6. | Additional Payments..... | 11 |
| Section 4.7. | No Merger..... | 11 |

ARTICLE V MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

| | | |
|--------------|--|----|
| Section 5.1. | Maintenance, Utilities, Taxes and Assessments..... | 12 |
| Section 5.2. | Modification of Leased Property..... | 12 |
| Section 5.3. | Public Liability and Property Damage Insurance..... | 13 |
| Section 5.4. | Fire and Extended Coverage Insurance; Title Insurance..... | 13 |
| Section 5.5. | Rental Interruption Insurance..... | 14 |
| Section 5.6. | Insurance Net Proceeds; Form of Policies..... | 14 |
| Section 5.7. | Advances..... | 14 |

| | | |
|---------------|---------------------------------------|----|
| Section 5.8. | Installation of City's Equipment..... | 14 |
| Section 5.9. | Liens. | 15 |
| Section 5.10. | Compliance With Property Lease. | 15 |

ARTICLE VI 'DAMAGE, DESTRUCTION AND EMINENT DOMAIN;' USE OF NET PROCEEDS

| | | |
|--------------|--|----|
| Section 6.1. | Eminent Domain. | 16 |
| Section 6.2. | Application of Net Proceeds..... | 16 |
| Section 6.3. | Abatement of Rental in the Event of Damage or Destruction..... | 16 |

ARTICLE VII OTHER COVENANTS

| | | |
|--------------|--|----|
| Section 7.1. | Disclaimer of Warranties..... | 18 |
| Section 7.2. | Access to the Leased Property..... | 18 |
| Section 7.3. | Release and Indemnification Covenants..... | 18 |
| Section 7.4. | Tax Covenants. | 18 |

ARTICLE VIII ASSIGNMENT, LEASING AND AMENDMENT

| | | |
|--------------|---|----|
| Section 8.1. | Assignment by the Corporation..... | 20 |
| Section 8.2. | Assignment and Leasing by the City..... | 20 |
| Section 8.3. | Amendment of Lease Agreement. | 20 |

ARTICLE IX EVENTS OF DEFAULT AND REMEDIES

| | | |
|--------------|---|---------|
| Section 9.1. | Events of Default Defined. | 22..... |
| Section 9.2. | Remedies on Default..... | 22 |
| Section 9.3. | No Remedy Exclusive..... | 24 |
| Section 9.4. | Agreement to Pay Attorneys' Fees and Expenses..... | 24 |
| Section 9.5. | No Additional Waiver Implied by One Waiver..... | 24 |
| Section 9.6. | Application of Proceeds. | 24 |
| Section 9.7. | Trustee and Certificate Owners to Exercise Rights. | 24 |

ARTICLE X PREPAYMENT OF LEASE PAYMENTS

| | | |
|---------------|------------------------------------|----|
| Section 10.1. | Security Deposit. | 26 |
| Section 10.2. | Prepayment; Purchase Option..... | 26 |
| Section 10.3. | Mandatory Prepayment. | 26 |
| Section 10.4. | Credit for Amounts on Deposit..... | 27 |

ARTICLE XI MISCELLANEOUS

| | | |
|---------------|-------------------------|----|
| Section 11.1. | Notices. | 28 |
| Section 11.2. | Binding Effect. | 28 |
| Section 11.3. | Severability..... | 28 |
| Section 11.4. | Net-net-net Lease. | 28 |

| | | |
|---------------|---|-----|
| Section 11.5. | Further Assurances and Corrective Instruments..... | 28 |
| Section 11.6. | Execution in Counterparts. | 29 |
| Section 11.7. | Applicable Law..... | 29 |
| Section 11.8. | Corporation and City Representatives..... | 29 |
| Section 11.9. | Captions..... | 29 |
| EXHIBIT A | SCHEDULE OF LEASE PAYMENTS..... | A-1 |
| EXHIBIT B | DESCRIPTION OF LEASED PROPERTY | B-1 |
| EXHIBIT C | FORM OF CERTIFICATE AS TO BUDGET..... | C-1 |
| EXHIBIT D | FORM OF NOTICE OF SUBSTITUTION AND RELEASE OF LEASED PROPERTY..... | D-1 |

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 City desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

WHEREAS, the City has concurrently leased a City asset, initially the Rinconada Library, 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") which is recorded concurrently herewith, 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") which is recorded concurrently herewith, 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 Section 3.04 of the Trust Agreement.

"Parking Garage Costs" means all costs of payment of, or reimbursement for, design, acquisition, construction, installation and equipping of the California Avenue Parking Garage, 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.

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

"California Avenue Parking Garage" means the parking garage to be located at 350 Sherman Avenue.

"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 proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Final Completion" means, with respect to the acquisition and construction of the California Avenue Parking Garage with the proceeds of the Certificates, the substantial readiness of the California Avenue Parking Garage for use and occupancy by the City, as evidenced by the delivery to the Trustee of a certificate of completion.

"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, 2019].

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

"Lease Payments" means the 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 November 2 in any year and ending on the next succeeding November 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 Lease Payments to be paid by the City hereunder with respect to the Leased Property, showing the date and amount of each such 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 CALIFORNIA AVENUE PARKING GARAGE; 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 California Avenue Parking Garage. The Corporation hereby appoints the City as its agent for the purposes of acquisition, construction, installation and equipping of the California Avenue Parking Garage. The City, as agent of the Corporation, shall cause the acquisition, construction, installation and equipping of the California Avenue Parking Garage to be performed diligently.

Section 3.3. Payment of Parking Garage Costs. Payment of the Parking Garage Costs shall be made from the moneys deposited in the Parking Garage 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 to the Corporation and the Trustee 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.

Notwithstanding any other provision hereof, including the provisions of this Section 3.5, or any provision of the Trust Agreement, upon Final Completion of the California Avenue Parking Garage, the City shall have the absolute right to make the California Avenue Parking Garage and its related site, as described in Exhibit B hereto, the Leased Property subject to this Lease Agreement and the Property Lease, and to release the Rinconada Library from this Lease Agreement and the Property Lease without meeting the conditions set forth in subsections (a) through (g) above. The City shall effectuate such release by (1) certifying, in a certificate of completion provided to the Trustee, that the Final Completion of the California Avenue Parking Garage has occurred and (2) causing a Notice of Substitution and Release of Leased Property, substantially in the form attached hereto as Exhibit D, to be recorded in the real property records of Santa Clara County. Subsequent to the execution and recordation of such Notice of Substitution and Release of Leased Property, subject to any future authorized substitution or release of the Leased Property pursuant to Section 3.5 or 3.6, references to the Leased Property herein shall be deemed to refer to the California Avenue Parking Garage and the related site and shall not be deemed to refer to the Rinconada Library so released.

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 to the Corporation and the Trustee 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.

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 November 1, 20[48], unless such term is extended as hereinafter provided. If on November 1, 20[48], 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 November 1, 20[58]). If prior to November 1, 20[48], 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 prepay 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. The City shall have no obligation to obtain earthquake insurance. Such insurance shall be in an amount at least equal to the lesser 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. Such insurance may be subject to deductible clauses of not to exceed \$100,000 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. 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. 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, subject only to Permitted Encumbrances, 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 California Avenue Parking Garage, 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. Upon request 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 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

OTHER COVENANTS

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.

Section 7.4. Tax Covenants.

- (a) **Private Activity Bond Limitation.** The City will assure that the proceeds of the Certificates are not so used as to cause the obligations of the City under this Lease Agreement to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.
- (b) **Federal Guarantee Prohibition.** The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the obligations of the City under this Lease Agreement to be "federally guaranteed" within the meaning of section 149(b) of the Code.
- (c) **Rebate Requirement.** The City will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess

investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates and this Lease Agreement.

- (d) No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of delivery of this Lease Agreement would have caused any of the obligations of the City under this Lease Agreement to be "arbitrage bonds" within the meaning of section 148 of the Code.
- (e) Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of delivery of this Lease Agreement.
- (f) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Certificates for at least 3 years after the Certificates mature or are redeemed (whichever is earlier); however, if the Certificates are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the last obligation in the series of obligations that refunded the Certificates.
- (g) Compliance with Tax Certificate. The City will comply with the provisions of the tax certificate and the use of proceeds certificate to be delivered with respect to the Certificates, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Certificates.

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;

(iii) Such lease shall not cause the City to violate any of its covenants in Section 7.4; and

(iv) 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.

Notwithstanding the foregoing, the City may sublease a portion of the rooftop of the California Avenue Parking Garage in connection with the installation of distributed renewable energy systems without complying with the provisions of this Section 8.2 except the preceding clauses (iii) and (iv).

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 a written certificate to the effect 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) 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 [____] 1, 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 in connection with the prepayment of the Certificates, 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, as of the date first above written.

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION,
as Lessor

By _____
Liz Kniss
President

Attest:

By _____
Beth Minor
Secretary

CITY OF PALO ALTO,
as Lessee

By _____
Lalo Perez
Administrative Services Director

Attest:

By _____
Beth Minor
City Clerk

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

SCHEDULE OF LEASE PAYMENTS

| <u>DATE</u> | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL LEASE PAYMENT</u> |
|-------------|------------------|-----------------|--------------------------------|
|-------------|------------------|-----------------|--------------------------------|

EXHIBIT B
DESCRIPTION OF LEASED PROPERTY

The land referred to herein is situated in the State of California, County of Santa Clara, City of Palo Alto and described as follows:

Initial Leased Property: Rinconada Library

[Description]

APN: 003-47-020

Leased Property Upon Final Completion: California Avenue Parking Garage

[Description]

APN: 124-33-059

EXHIBIT C

FORM OF CERTIFICATE AS TO BUDGET

**\$[_____] City of Palo Alto 2018 Certificates of Participation
(California Avenue Parking Garage)**

To: U.S. BANK NATIONAL ASSOCIATION
PALO ALTO PUBLIC IMPROVEMENT CORPORATION

Pursuant to Section 4.3(d) of that certain Lease Agreement, dated as of [_____] 1, 2018 (the "Lease Agreement"), related to the captioned certificates of participation, the City of Palo Alto (the "City") hereby certifies that the City has included the Lease Payments due during fiscal year 20__-__ in the City's budget for such fiscal year.

Capitalized terms used in this certificate but not defined herein have the meaning given them in the Lease Agreement.

Dated:_____

CITY OF PALO ALTO

By:_____

Its:_____

EXHIBIT D

FORM OF NOTICE OF SUBSTITUTION AND RELEASE OF LEASED PROPERTY

\$[_____] City of Palo Alto 2018 Certificates of Participation
(California Avenue Parking Garage)

RECORDING REQUESTED BY, AND
WHEN RECORDED, RETURN TO:

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

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 27383 OF THE CALIFORNIA GOVERNMENT CODE.

NOTICE OF SUBSTITUTION AND RELEASE OF LEASED PROPERTY

The City of Palo Alto, a chartered municipal corporation duly organized and existing under the Constitution and the laws of the State of California (the "City") is party to (i) that certain Lease Agreement, dated as of [_____] 1, 2018, 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, as lessee, recorded as Document No. [_____] in the Official Records of the Santa Clara County Recorder (the "Lease Agreement") and (ii) that certain Property Lease, dated as of [_____] 1, 2018, by and between the Corporation, as lessee, and the City, as lessor, recorded as Document No. [_____] in the Official Records of the Santa Clara County Recorder (the "Property Lease"). Capitalized terms used but not defined herein have the meanings ascribed to them in the Lease Agreement.

As contemplated by the Lease Agreement, the proceeds of the 2018 Certificates have been utilized to complete the acquisition and construction of the California Avenue Parking Garage, and the City hereby provides notice of (A) its substitution of the California Avenue Parking Garage (as described in Exhibit A) as the Leased Property under the Lease Agreement and the Property Lease and (B) its release of the Rinconada Library (as described in Exhibit A) as the Leased Property under the Lease Agreement and the Property Lease.

In accordance with Section 3.5 of the Lease Agreement, the City has provided to the Trustee a certificate of completion certifying that the Final Completion of the California Avenue

Parking Garage has occurred. Upon the recordation of this Notice of Substitution and Release of Leased Property, and subject to any future authorized substitution or release of the Leased Property pursuant to Section 3.5 and 3.6 of the Lease Agreement, references to the Leased Property in the Lease Agreement and in the Property Lease shall be deemed to refer to only the California Avenue Parking Garage and the related site, and shall not be deemed to refer to the Rinconada Library.

[signature page follows]

CITY OF PALO ALTO

By _____
Lalo Perez
Administrative Services Director

Attest:

By _____
Beth Minor
City Clerk

[Signature Page to Notice of Substitution and Release of Leased Property]

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

The land referred to herein is situated in the State of California, County of Santa Clara, City of Palo Alto and described as follows:

Initial Leased Property: Rinconada Library (APN: 003-47-020)

The Rinconada Library (formerly the Main Library), was designed by Edward Durell Stone, opened in 1958 following a voter approved bond measure that also funded the construction of the Mitchell Park Library. The library is located on Newell Road across from the Palo Alto Art Center. The building is 28,716 square feet, including a 5,000 square foot basement. This library has the largest collection in the system, including the principal reference collection and the archives of the Palo Alto Historical Association. It serves primarily adults and teens and has a very small children's collection.

While the building has received small remodels over the years, it needed a total renovation to bring it up to current codes and standards and to provide needed spaces to accommodate needs of its users. In 2014, over \$21.7 million renovation occurred that was funded by a voter approved \$76 million General Obligation bonds. The renovation brought the building to current codes and standard and included significant seismic improvements. A new wing was build off of south entrance with meeting room seating 100, added were additional restrooms, four small group study rooms off the ends of the reading room, a dedicated room for teens, upgraded lighting and electrical systems to support use of technology, new mechanical systems, including radiant heating and cooling system in the floor, and new carpet and paint. The library project area has approximately 175 trees, of these, over two dozen trees were removed and/or relocated with an equal number of new trees being planted. Some of the trees on the site were removed due to poor health or due to conflicts with other neighboring trees, others conflicted with the new geothermal wells and piping while others were removed to accommodate the project site improvements.

Leased Property Upon Final Completion: California Avenue Parking Garage (APN: 124-33-059)

The California Avenue Parking Garage is part of the City Council Infrastructure Plan. Construction of the garage is a key step in the delivery of a new Public Safety Building (PSB). The PSB will be built on the adjacent property at 250 Sherman Avenue that currently provides approximately 150 public parking stalls. The proposed parking garage, at 350 Sherman Avenue, will be located on the City's existing surface Parking Lot C-7. The parking garage will be four levels above grade and two stories below grade, with 636 public parking spaces serving the needs of the California Avenue business district. The new garage will replace existing stalls at the two locations and provide approximately 310 new parking stalls to the California Avenue business district. The parking structure will fill its site to nearly the property lines and utilize strategies such as a signature exterior grand staircase and landscaped setback (on Birch Street), a widened sidewalk (on Ash Street), and a partial-block pedestrian arcade leading to a mid-block paseo (on Jacaranda Lane) to provide appropriately scaled site amenities. Construction

will involve a cut-off wall to limit groundwater impact, cast-in-place post-tensioned structural concrete, and provisions for an integrated solar canopy. The height of the California Avenue Parking Garage will be approximately 49'-0" above sidewalk level to the top of roof-mounted photovoltaic (PV) panels.

As a public-serving amenity, the garage's key design imperatives include ease of wayfinding, generosity toward the pedestrian environment, and a perimeter skin that offers an appropriate visual character when viewed by its neighbors

Attachment A-3

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
(California Avenue Parking Garage)**

TABLE OF CONTENTS

TRUST AGREEMENT

ARTICLE I: DEFINITIONS:

| | |
|----------------------------------|---|
| Section 1.01. Definitions..... | 2 |
| Section 1.02. Authorization..... | 9 |

ARTICLE II: THE CERTIFICATES OF PARTICIPATION:

| | |
|--|----|
| Section 2.01. Authorization..... | 10 |
| Section 2.02. Date. | 10 |
| Section 2.03. Maturities; Interest Rates. | 10 |
| Section 2.04. Form of Certificates; Interest. | 11 |
| Section 2.05. Form. | 11 |
| Section 2.06. Execution. | 11 |
| Section 2.07. Transfer and Exchange..... | 11 |
| Section 2.08. Certificates Mutilated, Lost, Destroyed or Stolen..... | 11 |
| Section 2.09. Payment..... | 12 |
| Section 2.10. Execution of Documents and Proof of Ownership..... | 12 |
| Section 2.11. Registration Books. | 13 |
| Section 2.12. Use of Depository..... | 13 |

ARTICLE III: DISPOSITION OF PROCEEDS;' COSTS OF ISSUANCE FUND AND CONSTRUCTION FUND:

| | |
|---|----|
| Section 3.01. Application of Proceeds.. | 16 |
| Section 3.02. Costs of Issuance Fund. | 16 |
| Section 3.03. Golf Course Construction Fund. | 16 |

ARTICLE IV: PREPAYMENT OF CERTIFICATES:

| | |
|---|----|
| Section 4.01. Prepayment..... | 16 |
| Section 4.02. Selection of Certificates for Prepayment..... | 18 |
| Section 4.03. Notice of Prepayment..... | 18 |
| Section 4.04. Partial Prepayment of Certificate..... | 19 |
| Section 4.05. Effect of Notice of Prepayment. | 19 |

ARTICLE V: LEASE PAYMENTS; LEASE PAYMENT FUND:

| | |
|---|----|
| Section 5.01. Assignment of Rights in Lease Agreement. | 20 |
| Section 5.02. Establishment of Lease Payment Fund. | 20 |
| Section 5.03. Deposits. | 20 |
| Section 5.04. Application of Moneys. | 20 |
| Section 5.05. Surplus..... | 20 |

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. | 21 |
| Section 6.02. Application of Net Proceeds of Eminent Domain Award..... | 21 |

| | |
|---------------------------------|----|
| Section 6.03. Cooperation. | 22 |
|---------------------------------|----|

ARTICLE VII:
MONEYS IN FUNDS:

| | |
|---|----|
| Section 7.01. Held in Trust. | 23 |
| Section 7.02. Investments Authorized. | 23 |
| Section 7.03. Accounting. | 23 |
| Section 7.04. Allocation of Earnings. | 23 |
| Section 7.05. Acquisition, Disposition and Valuation of Investments. | 23 |
| Section 7.06. Commingling of Investment Securities and Disposition of Investments. | 23 |

ARTICLE VIII:
THE TRUSTEE:

| | |
|--|----|
| Section 8.01. Compensation of the Trustee. | 25 |
| Section 8.02. Removal of Trustee. | 25 |
| Section 8.03. Appointment of Agent. | 25 |
| Section 8.04. Merger or Consolidation. | 25 |
| Section 8.05. Protection and Rights of the Trustee. | 26 |

ARTICLE IX:
MODIFICATION OR AMENDMENT OF AGREEMENT:

| | |
|---|----|
| Section 9.01. Amendments Permitted. | 29 |
| Section 9.02. Procedure for Amendment with Written Consent of Certificate Owners. | 29 |
| Section 9.03. Disqualified Certificates. | 30 |
| Section 9.04. Effect of Supplemental Agreement. | 30 |
| Section 9.05. Endorsement or Replacement of Certificates Delivered After Amendments. | 31 |
| Section 9.06. Amendatory Endorsement of Certificates. | 31 |

ARTICLE X:
COVENANTS; NOTICES':

| | |
|---|----|
| Section 10.01. Compliance With and Enforcement of Lease Agreement. | 32 |
| Section 10.02. Prosecution and Defense of Suits. | 32 |
| Section 10.03. Recordation and Filing. | 32 |
| Section 10.05. Continuing Disclosure. | 32 |
| Section 10.06. Further Assurances. | 33 |

ARTICLE XI:
LIMITATION OF LIABILITY:

| | |
|---|----|
| Section 11.01. Limited Liability of City. | 34 |
| Section 11.02. No Liability for Trustee Performance. | 34 |
| Section 11.03. Indemnification. | 34 |
| Section 11.04. Opinion of Counsel. | 34 |
| Section 11.05. Limitation of Rights to Parties and Certificate Owners. | 34 |

ARTICLE XII:
EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE
OWNERS:

| | |
|---|----|
| Section 12.01. Assignment of Rights. | 35 |
| Section 12.02. Remedies. | 35 |
| Section 12.03. Application of Funds. | 35 |
| Section 12.04. Institution of Legal Proceedings. | 35 |
| Section 12.05. Non-waiver. | 36 |
| Section 12.06. Remedies Not Exclusive. | 36 |
| Section 12.07. Power of Trustee to Control Proceedings. | 36 |
| Section 12.08. Limitation on Certificate Owners' Right to Sue. | 36 |

ARTICLE XIII:

DEFEASANCE:

| | |
|---|----|
| Section 13.01. Discharge of Trust Agreement. | 38 |
| Section 13.02. Discharge of Liability on Certificates. | 38 |
| Section 13.03. Deposit of Money or Securities with Trustee. | 39 |
| Section 13.04. Payment of Certificates After Discharge of Trust Agreement. | 39 |

ARTICLE XIV:

MISCELLANEOUS:

| | |
|--|----|
| Section 14.01. Records. | 41 |
| Section 14.02. Notices. | 41 |
| Section 14.03. Governing Law. | 41 |
| Section 14.04. Binding Effect; Successors. | 41 |
| Section 14.05. Execution in Counterparts. | 41 |
| Section 14.06. Destruction of Cancelled Certificates. | 42 |
| Section 14.07. Headings. | 42 |
| Section 14.08. Waiver of Notice. | 42 |
| Section 14.09. Separability of Invalid Provisions. | 42 |

| | |
|--|-----|
| EXHIBIT A FORM OF 2018 CERTIFICATE OF PARTICIPATION. | A-1 |
|--|-----|

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 City desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

WHEREAS, the City has concurrently leased a City asset, initially the Rinconada Library, 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.

"California Avenue Parking Garage" means the parking garage to be located at 350 Sherman Avenue.

"Certificates" means the \$[____] aggregate principal amount of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage), 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 Administrative Services Director 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, Vice President, Treasurer or Executive Director 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).

"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.

"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 [____], as original purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"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.

"Parking Garage Costs" means all costs of payment of, or reimbursement for, design, acquisition, construction, installation and equipping of the California Avenue Parking Garage, 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.

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

"Payment Date" means (i) with respect to the interest component of the Lease Payments payable to the Owners of the Certificates, May 1, 2019, 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, November 1, 2019 and each November 1 thereafter so long as the Certificates are Outstanding, terminating November 1, [____].

"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.

"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 (California Avenue Parking Garage) 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 November 1, as follows:

| <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-------------|---------------|----------------------|
| [_____] | \$(_____) | [_____]% |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____] | [_____] | [_____] |
| [_____]T | [_____] | [_____] |
| [_____]T | [_____] | [_____] |
| [_____] T | [_____] | [_____] |

T: Term Certificate

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, or upon written request filed with the Trustee prior to the Record Date by an owner of at least \$1,000,000 in aggregate principal amount of the Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. 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) 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 November 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 in the amount of \$[_____] (being an amount equal to the principal amount of the Certificates (\$[_____]), [plus/less a net original issue premium/discount of \$_____] less an underwriter's discount of \$[_____]), 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; and

(b) The Trustee shall deposit an amount equal to \$[_____] in the Parking Garage 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 Section 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. Parking Garage Construction Fund. The Trustee shall establish and maintain a fund to be known as the "Parking Garage Construction Fund". The Trustee shall disburse moneys in the Parking Garage Construction Fund from time to time, for the purpose of paying the Parking Garage 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 Parking Garage Cost and has not been the basis of any previous disbursement. Upon completion of the California Avenue Parking Garage and following payment of all Parking Garage Costs, the Parking Garage Construction Fund shall be closed and transferred to the Lease Payment Fund.

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 November 1, [_____] are not subject to optional prepayment prior to their respective stated

maturities. The Certificates maturing on or after November 1, [____], 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 November 1, [____] from prepayments of the Lease Payments made pursuant to Section 10.2 of the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates or portions thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

(2) Mandatory Sinking Fund Prepayments of the Certificates. The Certificates maturing on November 1 in each of the years [____], [____], and [____], 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 November 1, [____]

| Sinking Fund Prepayment Date (November 1) | <u>Sinking Payments</u> |
|---|-------------------------|
| [____] | \$(____) |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] (maturity) | [____] |

Certificates Maturing November 1, [____]

| Sinking Fund Prepayment Date (November 1) | <u>Sinking Payments</u> |
|---|-------------------------|
| [____] | \$(____) |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] (maturity) | [____] |

Certificates Maturing November 1, [____]

| Sinking Fund Prepayment Date (November 1) | Sinking Payments |
|---|------------------|
| [____] | \$[____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] (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". 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.

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.

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. (a) Except as otherwise provided in subsection (b) of this Section, 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.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code will be valued at their present value (within the meaning of section 148 of the Code).

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) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of the portion of Lease Payments designated as and comprising interest and received by owners of the Certificates, (4) 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 (5) 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 <i>Fax: 415-677-3768</i> |

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

By _____
Authorized Officer

PALO ALTO PUBLIC IMPROVEMENT
CORPORATION

By _____
Liz Kniss
President

Attest:

By _____
Beth Minor
Secretary

CITY OF PALO ALTO

By _____
Kiely Nose
Administrative Services Director

Attest:

By _____
Beth Minor
City Clerk

EXHIBIT A

FORM OF 2018 CERTIFICATE OF PARTICIPATION

**CITY OF PALO ALTO 2018
CERTIFICATE OF PARTICIPATION
(California Avenue Parking Garage)**

**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, 2019 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 November 1, [_____] are not subject to optional prepayment prior to their respective stated maturities. The Certificates maturing on or after November 1, [_____] 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 November 1, [_____] from prepayments of the Lease Payments, at a prepayment price equal to the principal amount of the Certificates or portions thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Mandatory Sinking Fund Prepayments of the Certificates. The Certificates maturing on November 1 in each of the years [____], [____], and [____], 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 November 1, [_____]

| Sinking Fund Prepayment Date (November 1) | Sinking Payments |
|---|------------------|
| [_____] | \$[_____] |
| [_____] | [_____] |
| [_____] | [_____] |
| [_____] | [_____] |
| [_____] | [_____] |
| [_____] (maturity) | [_____] |

Certificates Maturing November 1, [____]

| Sinking Fund Prepayment Date (November 1) | <u>Sinking Payments</u> |
|---|-------------------------|
| [____] | [\$[____]] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] (maturity) | [____] |

Certificates Maturing November 1, [____]

| Sinking Fund Prepayment Date (November 1) | <u>Sinking Payments</u> |
|---|-------------------------|
| [____] | [\$[____]] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] | [____] |
| [____] (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-4

NOTICE OF SALE

\$[_____]*

CITY OF PALO ALTO 2018 CERTIFICATES OF PARTICIPATION (CALIFORNIA AVENUE PARKING GARAGE)

**Date of Sale
[day], [date], 2018
[_____] a.m., California Time**

BIDS TO BE RECEIVED VIA PARITY®

**For further information, please contact:
Robert Gamble or Nicholas Jones
PFM Financial Advisors LLC
50 California Street, Suite 2300
San Francisco, CA 94111
O: 415-982-5544
[C: _____]
Email: gambler@pfm.com or jonesni@pfm.com**

* Preliminary, subject to change.

\$[_____]*

CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(CALIFORNIA AVENUE PARKING GARAGE)

NOTICE IS HEREBY GIVEN that all-or-none bids will be received by the City of Palo Alto (herein, the "City"), for the purchase of the captioned certificates of participation (herein, the "Certificates"). All bids must be submitted via *Parity®*, the electronic bidding system, up to the time and at the place specified as follows:

TIME: 9:00 a.m., California Time

DATE: [Day], [Date], 2018

Bids for the purchase of the Certificates will be received and considered subject to the terms and conditions described herein.

Please note that the City reserves the right to cancel or reschedule the sale of the Certificates upon notice given through *Thomson Municipal News* at any time before the time for the receipt of bids, and if the sale is rescheduled, notice of the new sale date and time, if any, will be given through *Thomson Municipal News* no later than 5:00 p.m. California time the day prior to the new day bids are to be received, and bids will be received in the manner set forth above at the rescheduled date and time as the City may determine. The City will cancel the sale if at least one bid is received but less than three bids are received, as described in "TERMS OF SALE – Establishment of Issue Price."

DESCRIPTION OF THE CERTIFICATES

EXECUTION AND DELIVERY. The Certificates will be executed and delivered in the original principal amount of \$[_____]*, and bear interest from the date of their delivery, in full book-entry only form in denominations of \$5,000 and any integral multiple thereof, maturing as shown below under the caption "**MATURITY SCHEDULE.**" The Certificates are subject to optional prepayment, mandatory sinking fund prepayment and special mandatory prepayment prior to maturity as shown below under the caption "**PREPAYMENT.**" Prospective bidders should note that the terms of sale permit adjustment of individual maturities. See "**ADJUSTMENTS OF PRINCIPAL AMOUNTS**" below.

Reference is made to the Preliminary Official Statement (defined below) prepared in connection with the offering of the Certificates for a complete description of the Certificates.

INTEREST RATE. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest with respect to the Certificates shall accrue from their date at a rate or rates to be determined at the sale thereof. Interest with respect to the Certificates is payable semiannually on May 1 and November 1 in each year (the "Interest Payment Dates") commencing May 1, 2019. Bidders may specify any number of separate interest rates, and any rate may be repeated as often as desired; provided, however, that (i) each interest rate specified must be in a multiple of 1/20 of 1% or 1/8 of 1%; (ii) a zero rate of interest cannot be specified; (iii) interest with respect to each Certificate shall accrue from its dated date to its stated maturity date at the interest rate specified in the bid; (iv) all Certificates of the same maturity date shall bear the same rate of interest; and (v) no bid will be accepted which provides for the cancellation and surrender of any interest payment or for the waiver of interest or other concession by the bidder as a substitute for payment in full of the purchase price of the Certificate or Certificates. ***Bids that do not conform to the terms of this paragraph will be rejected.***

* Preliminary, subject to change.

PAYMENT. Principal and interest with respect to the Certificates will be payable by U.S. Bank National Association, the trustee for the Certificates (herein, the "Trustee"), in lawful money through the facilities of the Depository Trust Company, or its nominee.

AUTHORITY FOR ISSUANCE AND PURPOSE. The Certificates are being delivered pursuant to a Trust Agreement dated as of [_____] 1, 2018, by and amongst the City, the Palo Alto Public Improvement Corporation (the "Corporation") and the Trustee (the "Trust Agreement"). The Certificates represent direct, undivided fractional interests in lease payments to be made by the City to the Corporation (the "Lease Payments") under a Lease Agreement, dated as of [_____] 1, 2018, by and between the City and the Corporation (the "Lease Agreement") and from amounts on deposit in certain funds and accounts established under the Trust Agreement. The proceeds of the Certificates will be used to (i) finance the acquisition and construction of the California Avenue Parking Garage (described in the Preliminary Official Statement) and (ii) pay the costs of delivering the Certificates.

DENOMINATIONS. The Certificates will be executed and delivered as fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof.

DATE OF CERTIFICATES. The Certificates will be dated their date of delivery (the "Closing Date"), which is anticipated to be on or about [_____] 2018.

MATURITY SCHEDULE⁽¹⁾. The Certificates will mature, or be subject to mandatory sinking fund prepayment, on November 1 in each of the years, and in the amounts, as set forth in the following table. The final principal amount of the Certificates, and the final amount of each maturity of the Certificates, is subject to increase or reduction as described below under the heading "**ADJUSTMENT OF PRINCIPAL AMOUNTS.**" Each bidder must specify in its bid whether, for any particular year, the Certificates will mature or, alternatively, be subject to mandatory sinking fund prepayment in such year.

| <u>Maturity (November 1)</u> | <u>Principal Amount</u> |
|----------------------------------|-------------------------|
| 2020 | \$[_____] |
| 2021 | [_____] |
| 2022 | [_____] |
| 2023 | [_____] |
| 2024 | [_____] |
| 2025 | [_____] |
| 2026 | [_____] |
| 2027 | [_____] |
| 2028 | [_____] |
| 2029 | [_____] |
| 2030 | [_____] |
| 2031 | [_____] |
| 2032 | [_____] |
| 2033 | [_____] |
| 2034 | [_____] |
| 2035 | [_____] |
| 2036 | [_____] |
| 2037 | [_____] |
| 2038 | [_____] |
| 2039 | [_____] |
| 2040 | [_____] |
| 2041 | [_____] |
| 2042 | [_____] |
| 2043 | [_____] |
| 2044 | [_____] |
| 2045 | [_____] |
| 2046 | [_____] |
| 2047 | [_____] |
| 2048 | [_____] |

⁽¹⁾ Preliminary, subject to change. See also "Adjustment of Principal Amounts" herein.

ADJUSTMENT OF PRINCIPAL AMOUNTS. The principal amounts set forth in this Notice of Sale for the Certificates reflect certain estimates of the City and its municipal advisor with respect to the likely interest rates of a winning bid and the premium/discount specified in such a winning bid described below under the caption “**TERMS OF SALE.**”

The total principal amount of the Certificates and the principal amounts payable in each of the years set forth above are subject to adjustment, in \$5,000 increments, to reflect the actual interest rates and any premium contained in the winning bid. The City reserves the right to increase or decrease the principal amount of any maturity of the Certificates (or, in the case of the term Certificates, the principal amount thereof which is subject to mandatory sinking fund prepayment on November 1 in any year). The winning bidder will be notified of any adjustment in principal amounts as described in “**TERMS OF SALE - PROCESS OF AWARD**” below. Adjustment of the principal amounts will not affect the determination of the winning bid. A successful bidder may not withdraw its bid as a result of any changes made within these limits.

OPTIONAL PREPAYMENT. The Certificates maturing on or before November 1, 2028, are not subject to optional prepayment prior to their stated maturity. The Certificates maturing on or after November 1, 2029, are subject to prepayment, as a whole or in part at the election of the City among maturities on such basis as designated by the City and by lot within a maturity, at the option of the City, on November 1, 2028, and on any date thereafter, at a prepayment price equal to 100% of the principal amount of Certificates to be redeemed, together with accrued interest thereon to the date fixed for prepayment, without premium.

MANDATORY SINKING FUND PREPAYMENT. Any bidder may, at its option, specify that one or more maturities of the Certificates will consist of term Certificates which are subject to mandatory sinking fund prepayment in consecutive years immediately preceding the maturity thereof, as designated in the bid of such bidder. In the event that the bid of the successful bidder specifies that any maturity of Certificates will be term Certificates, such term Certificates will be subject to mandatory sinking fund prepayment on November 1 in each year so designated in the bid, in the respective amounts for such years as set forth above under the heading “**MATURITY SCHEDULE**”, at a prepayment price equal to the principal amount thereof to be paid together with accrued interest thereon to the prepayment date, without premium.

SPECIAL MANDATORY PREPAYMENT FROM INSURANCE AND SALE PROCEEDS. The Certificates are subject to prepayment as a whole, or in part, on any date, from any net proceeds of insurance or condemnation required to be used for such purpose, at a prepayment price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for prepayment, without premium.

BOOK ENTRY SYSTEM. The Certificates when delivered will be registered in the name of CEDE & CO., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be initially delivered as one certificate for each of the maturities of the Certificates. DTC will be appointed depository for the Certificates and registered ownership of the Certificates may not thereafter be transferred except as provided in the procedures, rules and requirements established by DTC. The Trustee will pay payments of principal and interest to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

SECURITY. The Certificates represent direct, undivided fractional interests in the Lease Payments made under the Lease Agreement in consideration for the use and occupancy of certain real property and improvements. Bidders are referred to the Preliminary Official Statement for further details as to the security for the Certificates.

NO RESERVE FUND. The City will not establish a debt service reserve fund for the Certificates.

TAX EXEMPTION. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an

item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation by the State of California. Bidders are referred to the Preliminary Official Statement for a description of the proposed opinion of Bond Counsel.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the delivery of the Certificates in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City will covenant to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Certificates.

DELIVERY OF CERTIFICATES. Delivery of the Certificates will be made to the successful bidder through the facilities of The Depository Trust Company in New York, New York (or at any other mutually agreeable location) on or about [____], 2018. Payment must be made in cash, Federal Reserve Bank funds, or other immediately available funds.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION FEE. Attention of bidders is directed to California Government Code Section 8856, which provides that the lead underwriter or the purchaser of the Certificates will be charged the California Debt and Investment Advisory Commission fee.

QUALIFICATION FOR SALE; BLUE SKY. Compliance with blue sky laws shall be the sole responsibility of the successful bidder. The City will furnish such information and take such action not inconsistent with law as the successful bidder may request and the City shall deem necessary or appropriate to qualify the Certificates for offer and sale under the blue sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the successful bidder; provided, however, that the City shall not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. The successful bidder will not offer to sell or solicit any offer to buy the Certificates in any jurisdiction where it is unlawful for such bidder to make such offer, solicitation or sale, and the bidder shall comply with the blue sky and other securities laws and regulations of the states and jurisdictions in which the bidder sells the Certificates.

CUSIP NUMBERS. It is anticipated that CUSIP numbers will be printed on the Certificates, but neither the failure to print such numbers on any Certificates nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and pay for the Certificates in accordance with the terms thereof. Pursuant to MSRB Rule G-34, the City's municipal advisor will apply for CUSIP number assignment prior to the sale of the Certificates, but the cost shall be payable by the Purchaser.

NO LITIGATION CERTIFICATE. At the time of issuance of the Certificates, the City will certify there is no litigation pending concerning the validity of the Certificates, the Trust Agreement, the Lease Agreement or any proceedings of the City with respect thereto, and that there are no lawsuits or claims pending against the City which will materially affect the City's finances.

RIGHT OF CANCELLATION BY SUCCESSFUL BIDDER. The successful bidder will have the right, at its option, to cancel its purchase of the Certificates if the City fails to cause execution and delivery of the Certificates and tender the same for delivery within 60 days from the date of award thereof. In such event, the successful bidder will be entitled to the return of the deposit accompanying the bid (see "TERMS OF SALE - GOOD FAITH DEPOSIT").

PRELIMINARY OFFICIAL STATEMENT AND FINAL OFFICIAL STATEMENT. The preliminary official statement, distributed in connection with the sale of the Certificates, dated [____], 2018 (the "Preliminary Official Statement") has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), but is subject to revision, amendment and completion

in a final official statement (the "Final Official Statement") as provided in the Rule. Limited quantities of the Preliminary Official Statement will be furnished upon request made to the City's municipal advisor identified on the cover of this Notice of Sale. The City will deliver to the purchaser of the Certificates a certificate dated the Closing Date to the effect that the City has reviewed each of the Preliminary Official Statement and Final Official Statement and has determined that as of the date of each thereof, to the best of its knowledge and belief, each of the Preliminary Official Statement and Final Official Statement does not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Up to 50 copies of the Final Official Statement will be furnished to the successful bidder at no charge within 7 business days after the award of the Certificates. If the successful bidder requests more than 50 copies of the Final Official Statement within 2 business days after the award of the Certificates, the City will provide such copies within 7 business days after the award as long as the successful bidder pays the related costs.

CONTINUING DISCLOSURE. The City will covenant to provide, by not later than nine months after the end of the City's fiscal year (presently June 30) and commencing April 1, 2019 with the report for the fiscal year ending June 30, 2018, an annual report which shall contain pertinent operating and financial information of the City relating to the Certificates as more fully described in the Preliminary Official Statement (the "Annual Report") and the Continuing Disclosure Certificate of the City dated the Closing Date, and to provide notices of the occurrence of certain enumerated material events. The Annual Report will be filed by the City or a dissemination agent (if the City has appointed such a dissemination agent) on behalf of the City with the Municipal Securities Rulemaking Board. The notices of material events will be filed by the City or dissemination agent on behalf of the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in the Preliminary Official Statement under the caption "**CONTINUING DISCLOSURE**" and in Appendix E – Form of Continuing Disclosure Certificate thereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

TERMS OF SALE

BASIS OF AWARD. Unless all bids are rejected as described in this Official Notice of Sale, the Certificates will be awarded to the responsible bidder whose bid produces the lowest true interest cost with respect to the Certificates. The true interest cost specified in any bid will be that rate which, when used in computing the present value of principal and interest to be paid on all Certificates from the expected date of delivery (which is assumed for computational purposes to be [____], 2018), to their respective maturity dates, or mandatory sinking fund prepayment dates in the case of term Certificates, produces an amount equal to the purchase price (including any premium) specified in such bid. For purposes of computing the true interest cost represented by any bid, the purchase price specified in such bid shall be equal to the par amount of the Certificates plus any premium specified in such bid, less any original issue discount, and the true interest cost shall be calculated by the use of a semiannual interval of compounding interest based on the Interest Payment Dates for the Certificates. In the event of a tied bid, the procedure for determining the winning bid will be the toss of a coin to be conducted by the City among such bidders whose bids have produced the tie.

ALL OR NONE BID. Any prospective purchaser may submit a bid for the Certificates, provided that if any of the Certificates are bid for, then all of the Certificates must be bid for.

PURCHASE PRICE; PAR, PREMIUM, AND DISCOUNT. The Certificates maturing on and after November 1, 2029, must bear an interest rate of not less than 5.0%. Bids for the Certificates maturing before November 1, 2029, may provide for reoffering at par value, at a premium, or at a discount.

BOND INSURANCE. Bids involving bond insurance will not be accepted.

FORM OF BID. All bids for the Certificates must be unconditional and for not less than all of the Certificates offered for sale. Each bid must be in accordance with the terms and conditions set forth herein. Bids will only be accepted via *PARITY®* pursuant to this Notice until 9:00 a.m., California Time on the date set forth for receipt of bids. To the extent any instructions or directions set forth in *PARITY®* conflict with this Notice, the terms of this Notice shall control. For further information about *PARITY®*,

potential bidders may contact the City's municipal advisor (see the cover page of this Notice of Sale for contact information).

DELIVERY AND PAYMENT. It is estimated that delivery of the Certificates will be made to the Purchaser on or about [____], 2018. Payment of the purchase price (less the amount of the good faith deposit described in "**GOOD FAITH DEPOSIT**" below) must be made in funds immediately available to the City.

WARNING REGARDING ELECTRONIC BIDS. THE CITY WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR THAT PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY, THAT THE CITY NEITHER ENDORSES NOR EXPLICITLY ENCOURAGES THE USE OF PARITY, AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE CITY. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY, AND THE CITY ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY. THE CITY SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE MUNICIPAL ADVISOR AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE CITY AT THE PLACE OF BID OPENING, AND THE CITY SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

TRUE INTEREST COST. Bidders are requested to supply a calculation of the true interest cost of the Certificates to the City on the basis of their respective bids, which shall be considered as informative only and not binding on either the bidder or the City. The true interest cost specified in any bid will be that rate which, when used in computing the present value of all payments of principal and interest to be paid on all Certificates from the Closing Date (which is anticipated to be [____], 2018) to their respective maturity dates or mandatory sinking fund prepayment dates, produces an amount equal to the purchase price (including any premium) specified in such bid.

UNDERWRITING GROUP. Each bidder is requested to furnish the names of all joint managers participating in the bid. The successful bidder will be required to submit a list of all syndicate members in addition to the managers not later than 24 hours after receiving a verbal award.

RIGHT OF CANCELLATION OF SALE BY THE CITY. The City reserves the right, in its sole discretion, at any time before the time for the receipt of bids to cancel the public sale of the Certificates. In such event, the City shall cause notice of cancellation of this invitation for bids and the public sale of the Certificates to be communicated through *Thomson Municipal News* as promptly as practicable. However, no failure to publish such notice or any defect or omission therein shall affect the cancellation of the public sale of the Certificates.

In addition, the City will cancel the sale if at least one bid is received but less than three bids are received, as described in "**TERMS OF SALE – Establishment of Issue Price.**"

RIGHT TO MODIFY OR AMEND. The City reserves the right, in its sole discretion, to modify or amend this Official Notice of Sale including, but not limited to, the right to change the principal amount and principal amortization schedule of the Certificates being offered, however, such modifications or amendments shall be made not later than 5:00 p.m., California time, on the business day prior to the bid opening and communicated through *Thomson Municipal News*.

RIGHT OF POSTPONEMENT BY THE CITY. The City reserves the right, in its sole discretion, to postpone, from time to time, the date and time established for the receipt of bids. Any such postponement will be communicated through *Thomson Municipal News* not later than 5:00 p.m., California time, on the business day prior to any announced date for receipt of bids. If any date is postponed, any alternative sale date will be announced via *Thomson Municipal News* by 5:00 p.m.

California Time on the business day prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit a bid for the purchase of the Certificates in conformity in all respects with the provisions of this Official Notice of Sale, except for the date of sale and except for the changes announced by *Thomson Municipal News* at the time the sale date and time are announced.

RIGHT OF REJECTION. The City reserves the right, in its discretion, to reject any and all bids and to waive any irregularity or informality in any bid.

PROCESS OF AWARD. The City will take final action awarding the Certificates or rejecting all bids not later than thirty (30) hours after the time for receipt of bids, unless such time period is waived by the Purchaser (defined below).

The following steps constitute the City's process for a final award of the Certificates:

(1) The City's municipal advisor, on behalf of the City, will give a verbal notice of award to the apparent winning bidder (the "Apparent Winning Bidder") to be determined as described below under "**-BASIS OF AWARD**" above.

(2) The Apparent Winning Bidder shall provide within one hour of verbal notice the initial reoffering prices and confirm that it is prepared to execute the Issue Price Certificate described under "**ESTABLISHMENT OF ISSUE PRICE**" below.

(3) The Apparent Winning Bidder shall provide the Good Faith Deposit by wire transfer, as described under "**GOOD FAITH DEPOSIT.**"

(4) The City's municipal advisor will fax or email to the Apparent Winning Bidder confirmation of the final principal amortization schedule and purchase price for the Certificates, after adjustments, if any, are made, as described under "**DESCRIPTION OF THE CERTIFICATES- ADJUSTMENT OF PRINCIPAL AMOUNTS.**"

(5) The City will fax or email to the Apparent Winning Bidder written confirmation of the final award.

Upon completion of all the steps described above, the Apparent Winning Bidder will be deemed the Purchaser of the Certificates (the "Purchaser") and will be bound by the terms of the contract to purchase the Certificates, which contract shall consist of: (a) this Official Notice of Sale; (b) the information that is transmitted electronically by the bidder through Parity®; and (c) any adjustments to the final principal amortization schedule and purchase price made as described under "**DESCRIPTION OF THE CERTIFICATES- ADJUSTMENT OF PRINCIPAL AMOUNTS.**"

GOOD FAITH DEPOSIT. A good faith deposit in the amount of \$400,000 for the Certificates (the "Good Faith Deposit") must be provided by the Apparent Winning Bidder. The Good Faith Deposit must be submitted by wire transfer (as described below). The Certificates will not be officially awarded to a bidder who has not submitted a Good Faith Deposit.

Upon the determination by the City of the Apparent Winning Bidder (as described above under "PROCESS OF AWARD"), the City's municipal advisor will request the Apparent Winning Bidder to (i) immediately wire the Good Faith Deposit to the Trustee, as described below, and (ii) provide, within ninety (90) minutes of such request, the Federal wire reference number of such Good Faith Deposit to the City's municipal advisor by email (Gambler@pfm.com or Jonesni@pfm.com). The wire transfer is to be made to U.S. Bank National Association, using the following wire instructions:

Bank Name: U.S. Bank National Association
ABA No.:
A/C No.:
A/C Name:
Attention:

In the event that the Apparent Winning Bidder does not wire the Good Faith Deposit as required, or does not provide the Federal wire reference number confirming the wire-transfer of such deposit to the municipal advisor within the time specified above, the City may reject the bid of the Apparent Winning Bidder and may award the Certificates to a responsible bidder that submitted a conforming bid that represents the next lowest true interest cost to the City.

No interest will be paid upon a Good Faith Deposit made by an Apparent Winning Bidder. Upon receipt of the Good Faith Deposit by the City, the Good Faith Deposit will immediately become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Certificates purchased by the Purchaser at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Certificates, the City shall retain the Good Faith Deposit and the Purchaser will have no right in or to the Certificates or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such deposit, except pursuant to a right of cancellation. See **"RIGHT OF CANCELLATION."** In the event of nonpayment of the purchase price for the Certificates by the Purchaser, the City reserves any and all rights granted by law to recover the full purchase price of the Certificates and, in addition, any damages suffered by the City.

ESTABLISHMENT OF ISSUE PRICE. (a) The Purchaser shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City at closing an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public of the Certificates, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit 1, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Purchaser, the City and Bond Counsel. All actions to be taken by the City under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the "competitive sale requirements") because:

- (1) the City shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid. **By submitting a bid for the Certificates, each bidder certifies that it has an established industry reputation for underwriting new issuances of municipal bonds.** The City will not accept bids from firms without an established industry reputation for underwriting new issuances of municipal bonds.

In the event that the competitive sale requirements are not satisfied, the City will reject all bids and cancel the sale.

Bidders should prepare their bids on the assumption that the issue price of the Certificates will be the reasonably expected initial offering price to the public.

ADDITIONAL INFORMATION AVAILABLE. Requests for additional information about the Certificates, the City or the Corporation may be directed to the City's Bond Counsel, Jones Hall, attention:

Chris Lynch, telephone (415) 391-5780; or the City's municipal advisor (see the cover of this Notice of Sale for contact information).

APPROVED by the City Council of the City of Palo Alto by resolution adopted October 15, 2018.

/s/ Kiely Nose
Interim Administrative Services Director
City of Palo Alto

EXHIBIT 1
Issue Price Certificate

The undersigned, on behalf of **[NAME OF UNDERWRITER]** ("**Underwriter**"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "**Certificates**").

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Certificates to the Public by Underwriter are the prices listed in Schedule A (the "**Expected Offering Prices**"). The Expected Offering Prices are the prices for the Maturities of the Certificates used the Underwriter in formulating its bid to purchase the Certificates. Attached as Schedule B is a true and correct copy of the bid provided by Underwriter to purchase the Certificates.

(b) Underwriter was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by Underwriter constituted a firm offer to purchase the Certificates.

2. Defined Terms.

(a) *Maturity* means Certificates with the same credit and payment terms. Certificates with different maturity dates, or Certificates with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Certificates. The Sale Date of the Certificates is **[DATE]**.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Underwriter's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Certificate of Arbitrage and with respect to compliance with the federal income tax rules affecting the Certificates, and by Jones Hall, A Professional Law Corporation in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the City from time to time relating to the Certificates.

[UNDERWRITER]

By: _____

Name: _____

Dated: [ISSUE DATE]

SCHEDULE A

EXPECTED OFFERING PRICES

| <u>Maturity Date</u> <u>(November 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Reoffering</u> <u>Price</u> * |
|---|-----------------------------------|--------------------------------|-------------------------------------|
| | \$ | % | % |

* Stated as a percentage of par.

SCHEDULE B
COPY OF UNDERWRITER'S BID
(attached)

Attachment A-5

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 16, 2018

NEW ISSUE—BOOK-ENTRY ONLY

RATING:

S&P: “ ”

See “RATING” herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.



\$ _____ *

CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(California Avenue Parking Garage)

Dated: Date of Delivery

Due: November 1, as shown on the inside cover

The \$ _____ * City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the “Certificates”) are being sold to provide funds to (a) finance the costs of the construction of a 636 space parking garage (see “THE PROJECT” herein) and (c) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

The Certificates represent 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 Leased Property (as defined herein) under and pursuant to a Lease Agreement, dated as of November 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 November 1, 2018, by and among the City, the Corporation and 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 (“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 May 1, 2019. The Certificates will 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 and APPENDIX F—DTC’S BOOK-ENTRY ONLY SYSTEM.

The Certificates are subject to optional and mandatory prepayment. See “THE CERTIFICATES—Prepayment” 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 Leased 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 Leased 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. **A reserve fund will not be funded for the Certificates.**

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE CITY 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 CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

MATURITY SCHEDULE

SEE THE INSIDE COVER

Bids for the purchase of the Certificates will be received by the City on Thursday, October 25, 2018, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 9:30 A.M., Pacific Daylight time. The Certificates will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated October 16, 2018.

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. It is anticipated that the Certificates will be available for through the facilities of DTC on or about November __, 2018.

Dated: October __, 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
(California Avenue Parking Garage)

CUSIP[†] Prefix: _____

| Maturity (November 1) | Principal Amount* | Interest Rate | Yield | CUSIP[†] Suffix | |
|----------------------------------|------------------------------|--------------------------|--------------|-------------------------------------|--|
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |
| 2025 | | | | | |
| 2026 | | | | | |
| 2027 | | | | | |
| 2028 | | | | | |
| 2029 | | | | | |
| 2030 | | | | | |
| 2031 | | | | | |
| 2032 | | | | | |
| 2033 | | | | | |
| 2034 | | | | | |
| 2035 | | | | | |
| 2036 | | | | | |
| 2037 | | | | | |
| 2038 | | | | | |
| 2039 | | | | | |
| 2040 | | | | | |
| 2041 | | | | | |
| 2042 | | | | | |
| 2043 | | | | | |
| 2044 | | | | | |
| 2045 | | | | | |
| 2046 | | | | | |
| 2047 | | | | | |
| 2048 | | | | | |

*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.

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 District with respect to the Certificates that has been deemed "final" by the District 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."

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such 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 INSIDE 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.

TABLE OF CONTENTS

| | | | |
|--|--|--|----|
| INTRODUCTION | 1 | Short-Term General Fund-Secured Obligations..... | 32 |
| General..... | 1 | Long-Term General Fund-Secured Obligations | 32 |
| Source of Payment for the Certificates | 2 | Other Obligations | 32 |
| Redemption..... | 2 | Overlapping Debt | 32 |
| The City | 2 | THE CORPORATION | 35 |
| Continuing Disclosure..... | 3 | RISK FACTORS | 35 |
| Summaries of Documents | 3 | Lease Payments Are Not Debt..... | 35 |
| Other Information | 3 | Valid and Binding Covenant to Budget and Appropriate | 36 |
| ESTIMATED SOURCES AND USES OF FUNDS..... | 4 | Additional Obligations of the City | 36 |
| THE PROJECT | 4 | Abatement | 36 |
| THE LEASED PROPERTY | 4 | No Acceleration Upon Default | 36 |
| DEBT SERVICE SCHEDULE..... | 6 | Risk of Uninsured Loss..... | 37 |
| THE CERTIFICATES | 7 | Eminent Domain | 37 |
| General..... | 7 | Hazardous Substances | 37 |
| Prepayment | 7 | Natural Calamities | 38 |
| Transfer and Exchange of Certificates | 9 | Bankruptcy | 39 |
| Book-Entry System | 9 | Pension Benefit Liability..... | 40 |
| SOURCE OF PAYMENT FOR THE CERTIFICATES | 10 | Early Prepayment Risk..... | 40 |
| General..... | 10 | Limitations on Remedies | 40 |
| Lease Payments; Covenant to Appropriate | 10 | Dependence on State for Certain Revenues..... | 41 |
| Insurance | 11 | No Reserve Fund..... | 41 |
| Abatement..... | 11 | Secondary Market Risk..... | 41 |
| Eminent Domain | 12 | Changes in Law | 41 |
| No Reserve Fund | 12 | STATE BUDGET INFORMATION..... | 42 |
| Optional Prepayment | 12 | Future State Budgets | 43 |
| Mandatory Prepayment..... | 13 | CONSTITUTIONAL AND STATUTORY LIMITATIONS | |
| Substitution or Removal of Leased Property | 13 | ON TAXES AND APPROPRIATIONS | 44 |
| Events of Default and Remedies..... | 14 | Article XIII A of the California Constitution | 44 |
| Amendment of Lease Agreement..... | 15 | Article XIII B of the California Constitution | 45 |
| THE CITY | 15 | Articles XIII C and XIII D of the California Constitution..... | 46 |
| CITY FINANCIAL INFORMATION | 16 | Proposition 62..... | 47 |
| Financial Statements and Budgetary Process | 16 | Proposition 1A; Proposition 22..... | 47 |
| City Financial Management Policies | 19 | Proposition 26..... | 48 |
| Current Investments | 20 | Possible Future Initiatives | 49 |
| Principal Sources of General Fund Revenues..... | 20 | ABSENCE OF LITIGATION | 49 |
| Property Taxes | 20 | CONTINUING DISCLOSURE | 49 |
| Assessed Valuation..... | 22 | MUNICIPAL ADVISOR | 50 |
| Sales and Use Taxes | 24 | LEGAL MATTERS | 50 |
| Motor Vehicle In-Lieu Tax | 24 | TAX MATTERS..... | 50 |
| Other Revenue Sources..... | 25 | UNDERWRITING | 52 |
| OTHER FINANCIAL INFORMATION..... | 26 | RATING..... | 52 |
| Labor Relations | 26 | FINANCIAL STATEMENTS | 53 |
| Risk Management..... | 26 | ADDITIONAL INFORMATION | 53 |
| Employee Retirement Plans | 27 | | |
| Other Post-Employment Benefits..... | 31 | | |
| APPENDIX A | GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY | | |
| APPENDIX B | COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2017 | | |
| APPENDIX C | INVESTMENT POLICY OF THE CITY | | |
| APPENDIX D | FORM OF OPINION OF SPECIAL COUNSEL | | |
| APPENDIX E | SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS | | |
| APPENDIX F | DTC'S BOOK-ENTRY ONLY SYSTEM | | |
| APPENDIX G | FORM OF CONTINUING DISCLOSURE CERTIFICATE | | |

CITY OF PALO ALTO LOCATION MAP



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*
Monique LeConge, *Library/Acting Community Services Director*
Tarun Narayan, *Manager of Treasury, Debt & Investments*
Kristen O’Kane, *Assistant Director of Community Services*
Lam Do, *Superintendent of Open Space, Parks & Golf*
Harriet Richardson, *City Auditor*
Molly S. Stump, *City Attorney*
Beth Minor, *City Clerk*

SPECIAL SERVICES

Special Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Disclosure Counsel

Quint & Thimmig LLP
Larkspur, California

Financial Advisor

PFM Financial Advisors LLC
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

\$ _____
CITY OF PALO ALTO
2018 CERTIFICATES OF PARTICIPATION
(California Avenue Parking Garage)

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 \$ _____* City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 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 the costs of a 636 space parking garage (the “Project”) and (b) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates. See “THE PROJECT.”

The City will lease certain existing property (the “Leased Property”) to the Corporation pursuant to a Property Lease, dated as of November 1, 2018 (the “Property Lease”). The Corporation will lease the Leased Property back to the City pursuant to a Lease Agreement, dated as of November 1, 2018 (the “Lease Agreement”). The Certificates represent direct, undivided fractional interests of the owners thereof in 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 LEASED PROPERTY.”

Interest with respect to the Certificates is payable on May 1 and November 1 of each year, commencing May 1, 2019. 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.”

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

* Preliminary, subject to change.

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. 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 November 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. See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “RISK FACTORS.”

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

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE CITY OR THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS OR RESTRICTION OR AN OBLIGATION 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

Redemption

The Certificates are subject to optional and mandatory prepayment. See “THE CERTIFICATES—Prepayment.”

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 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. The City’s current population is approximately 69,721. The City’s adopted fiscal year 2018-19 general fund budget projects total revenue of \$_____ million. 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 One California Street, Suite 1000, San Francisco, CA 94111.

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.

ESTIMATED 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

Total Sources

=====

Uses

Deposit to the Parking Garage Construction Fund ⁽¹⁾

Deposit to Costs of Issuance Fund ⁽²⁾

Total Uses

=====

⁽¹⁾ Amounts deposited in the Parking Garage Construction Fund will be used to finance the Project. See “THE PROJECT.”

⁽²⁾ Costs of Issuance include the Underwriter’s discount, fees and expenses of the municipal advisor, special counsel, disclosure counsel and the Trustee, printing expenses, rating fees, title insurance and other costs.

THE PROJECT

Proceeds of the Certificates will be used to (a) finance the costs of the Project and (b) pay a portion of the delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

The Project consists of construction of the California Avenue Parking Garage at 350 Sherman Avenue in the City. Construction of the garage is a key step in the delivery of a new Public Safety Building. The Public Safety Building will be built on the adjacent property at 250 Sherman Avenue that currently provides approximately 150 public parking stalls. The proposed parking garage will be located on the City’s existing surface Parking Lot C-7. The parking garage will include four levels above grade and two stories below grade, with 636 public parking spaces serving the needs of the California Avenue business district. Construction will involve a cut-off wall to limit groundwater impact, cast-in-place post-tensioned structural concrete, and provisions for an integrated solar canopy.

THE LEASED 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, initially of the City’s Rinconada Library, located at 1213 Newell Road in the City. [ADDITIONAL DESCRIPTION TO COME].

Upon the construction and the substantial readiness of the Project for use and occupancy by the City, as shall be evidenced by a certificate of completion delivered by the City, the Project will be the Leased Property subject to the Property Lease and the Lease Agreement, and the initial Lease Property will be released.

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 annual debt service for the Certificates:

| Payment Date (November 1) | Principal ⁽¹⁾ | Interest ⁽²⁾ | Total |
|---------------------------------|--------------------------|-------------------------|-------|
| | \$ 3 | | |

| | | | |
|-------|----|--|--|
| Total | \$ | | |
|-------|----|--|--|

⁽¹⁾ Principal payments with respect to the Certificates on each November 1 are derived from Lease Payments made by the City on the preceding October 15. Includes sinking fund payments.

⁽²⁾ 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 inside cover page 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 May 1, 2019 (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” and APPENDIX F—DTC’S 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 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 April 15, 2019, 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 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 Record Date or, upon written request filed with the Trustee prior to the 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 November 1, 20____, are not subject to optional prepayment prior to maturity. The Certificates maturing on and after November 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 and by lot within a maturity, on or after November 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.

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 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 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 in compliance with the Trust Agreement, 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.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided interest of the Owners 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 LEASED 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.”

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 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. Lease Payments will be made by the City to the Trustee on April 15 and October 15 in each year, in advance of the corresponding May 1 and November 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 Corporation to comply with the provisions of the Trust 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 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 the vof (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. 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.

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 at least equal to the maximum Lease Payments coming due and payable during any two consecutive fiscal years during the remaining term of the Lease Agreement.

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 \$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 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 Costs of Issuance 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 October 15, 20____, in whole or in part on any date, commencing October 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.

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 been deposited with the Trustee in the Lease Payment Fund for such purpose. Such proceeds shall be applied to the prepayment of the principal component of the Lease Payments and the prepayment of the Certificates.. See “THE CERTIFICATES—Prepayment—Mandatory Prepayment.”

Substitution or Removal of Leased Property

Substitution of Leased Property. The City has 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 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;

(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 has 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 Lease Agreement 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 under the Lease Agreement.

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.

Events of Default and Remedies

The following shall be "events of default" under the Lease Agreement:

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

(b) 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 paragraph (a) above, 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.

(c) 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.

Whenever any event of default 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 in the Lease Agreement 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 to be kept and performed by the City under the Lease Agreement 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 the Lease Agreement. In the event of such default and notwithstanding any re-entry by the Corporation, the City shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as provided in the Lease Agreement.

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) 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 (c) 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 portion of 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 City was incorporated in 1894. Its first Charter was granted by the State 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 (reducing to seven members in January 2019) 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.

Budget Process. The City Council adopts an annual 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 unaudited actuals for fiscal year 2017-18.

Table 1
General Fund Balance Sheet
Fiscal Years 2013-14 through 2017-18
(Dollars in Thousands)

| | FY2013-14 Audited | FY2014-15 Audited | FY2015-16 Audited | FY2016-17 Audited | FY2017-18 Unaudited |
|--|----------------------|----------------------|----------------------|----------------------|------------------------|
| 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.

The following table shows the City's audited general fund revenues, expenditures and changes in fund balances for fiscal years 2014-15 through 2016-17, unaudited actuals for fiscal year 2017-18 and the City's adopted budget for fiscal year 2018-19.

Table 2
General Fund Statement of Revenue, Expenditures and Changes in Fund Balances
Fiscal Years 2014-15 through 2017-18 and Adopted Budget for Fiscal Year 2018-19
(Dollars in Thousands)

| | FY2014-15 Audited | FY2015-16 Audited | FY2016-17 Audited | FY2017-18 Unaudited | FY2018-19 Budget |
|--------------------------------------|----------------------|----------------------|----------------------|------------------------|---------------------|
| REVENUES | | | | | |
| Property Tax | \$ 34,117 | \$ 36,607 | \$ 39,381 | | |
| Sales Tax | 29,675 | 30,018 | 29,923 | | |
| Utility Users Tax | 10,861 | 12,469 | 14,240 | | |
| Transient Occupancy Tax | 16,699 | 22,366 | 23,477 | | |
| Documentary Transfer Tax | 10,384 | 6,266 | 7,491 | | |
| Other Taxes and Fines | 1,900 | 2,238 | 2,167 | | |
| Charges for Services | 25,973 | 23,910 | 22,267 | | |
| From Other Agencies | 3,712 | 3,190 | 2,758 | | |
| Permits and Licenses | 7,056 | 7,912 | 7,437 | | |
| Investment Earnings | 1,177 | 2,494 | (1,193) | | |
| Rental Income | 14,911 | 15,769 | 15,692 | | |
| Other Revenue | 1,018 | 2,591 | 760 | | |
| Total Revenues | 157,483 | 165,830 | 164,400 | | |
| EXPENDITURES | | | | | |
| City Council | 270 | 330 | 316 | | |
| City Manager | 2,112 | 2,567 | 1,896 | | |
| City Attorney | 1,830 | 2,212 | 2,049 | | |
| City Clerk | 679 | 488 | 724 | | |
| City Auditor | 409 | 313 | 822 | | |
| Administrative Services | 3,746 | 3,545 | 4,975 | | |
| Human Relations | 1,570 | 1,843 | 2,194 | | |
| Public Works | 11,440 | 12,315 | 13,578 | | |
| Planning and Community Environment | 7,369 | 9,059 | 9,054 | | |
| Development Services | 11,152 | 10,643 | 10,908 | | |
| Police ⁽¹⁾ | 61,226 | 35,247 | 39,597 | | |
| Fire ⁽¹⁾ | -(1) | 28,312 | 31,419 | | |
| Community Services | 23,045 | 24,280 | 25,192 | | |
| Library | 7,980 | 7,960 | 8,953 | | |
| Non-Departmental | 5,578 | 5,680 | 5,906 | | |
| Capital Outlay | - | - | - | | |
| Debt Service - Principal | 383 | 395 | 406 | | |
| Debt Service - Interest | 46 | 36 | 26 | | |
| Total Expenditures | 138,835 | 145,225 | 158,015 | | |
| EXCESS OF REVENUES OVER EXPENDITURES | 18,648 | 20,605 | 6,385 | | |
| OTHER FINANCING SOURCES | | | | | |
| Transfers In | 17,796 | 18,317 | 19,222 | | |
| Transfers Out | (22,284) | (34,461) | (29,431) | | |
| Total Other Financing Sources | (4,488) | (16,144) | (10,209) | | |
| Change in Fund Balances | 14,160 | 4,461 | (3,824) | | |
| FUND BALANCES, BEGINNING OF YEAR | 48,310 | 62,470 | 66,931 | | |
| FUND BALANCES, END OF YEAR | \$62,470 | \$66,931 | \$63,107 | | |

Sources: City of Palo Alto 2013-14 through 2016-17 CAFRs and City of Palo Alto 2018-19 Budget, adopted June ____, 2018.

(1) In fiscal year 2014-15 the Police and Fire totals were 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; (ii) the prudent investment of City funds, and (iii) management of debt. 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 Budget Stabilization Reserve Policy. The following table shows the City's general fund Budget Stabilization Reserve Policy guidance, actual reserves for fiscal year 2017-18 and budgeted reserve for fiscal year 2018-19.

Table 3
General Fund Budget Stabilization Reserve Policy

| | Policy Guidance | Actual FY 2017-18 | Budgeted FY 2018-19 |
|---------------|-------------------------------------|----------------------|------------------------|
| % of Expenses | 15% to 20%; target goal of 18.5% | _____ % | _____ % |

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.

Debt Management Policy. In accordance with section 8855(i) of the California Government Code the City adopted a debt management policy on April 11, 2017, to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

Capital Improvement Project Practices. While the City does not have an adopted capital improvement project policy, it does have certain criteria that must be adhered to before commencing a capital improvement project including (a) that the project must have a minimum cost of \$50,000 for each stand-alone unit or combined project, (b) that the project must have a useful life of at least five to seen years, and (c) that the project must extend the life of an existing asset or provide a new functional use for an existing asset for at least five years.

Current Investments

The City's investment portfolio (par value), as of June 30, 2018, included cash and investments equal to \$_____.

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 and use taxes represented approximately 18.2% of General Fund revenues. 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 General Fund revenues in fiscal year 2016-17. 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.

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 three fiscal years, unaudited actuals for fiscal year 2017-18 and budgeted tax revenues for fiscal year 2018-19:

Table 4
Tax Revenues by Source
(Dollars in Thousands)

| Source | FY2014-15 Audited | FY2015-16 Audited | FY2016-17 Audited | FY2017-18 Unaudited | FY2018-19 Budget |
|--------------------------|----------------------|----------------------|----------------------|------------------------|---------------------|
| Property Tax | \$ 34,117 | \$ 36,607 | \$ 39,381 | | |
| Sales Tax | 29,675 | 30,018 | 29,923 | | |
| Transient Occupancy Tax | 16,699 | 22,366 | 23,477 | | |
| Utility User Tax | 10,861 | 12,469 | 14,240 | | |
| Documentary Transfer Tax | 10,384 | 6,266 | 7,491 | | |
| Other Taxes and Fines | 1,900 | 2,238 | 2,167 | | |
| Total Revenues | <u>\$103,636</u> | <u>\$109,964</u> | <u>\$116,679</u> | | |

Sources: City of Palo Alto fiscal years 2014-15 through 2016-17 CAFRs and City of Palo Alto fiscal year 2018-19 Budget, adopted June _____, 2018.

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 constitutional amendment that is effective in Fiscal year 2018-19, 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 if funds are appropriated. 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 five most recent fiscal years.

Table 5
Assessed Valuations
(Dollars in thousands)

| Fiscal Year | Local Secured | Utility | Unsecured | Total ⁽¹⁾ |
|-------------|---------------|---------|-------------|----------------------|
| 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 |
| 2018-19 | 34,891,627 | 7,004 | 1,902,781 | 36,801,413 |

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 2018-19

| | Property Owner | Primary Land Use | 2018-19 Assessed Valuation | % of Total ⁽¹⁾ |
|-----|--|-------------------|--------------------------------|------------------------------|
| 1. | Board of Trustees Leland Stanford Jr. University | Various Land Uses | \$5,446,309,461 ⁽²⁾ | 15.61% |
| 2. | Space Systems Loral Land LLC | Industrial | 248,246,753 | 0.71 |
| 3. | Google Inc. | Industrial/Office | 213,981,535 | 0.61 |
| 4. | 395 Page Mill LLC | Office Building | 118,303,278 | 0.34 |
| 5. | ARE-San Francisco 69 LLC | Office Building | 114,574,845 | 0.33 |
| 6. | SVF Sherman Palo Alto Corporation | Office Building | 97,856,041 | 0.28 |
| 7. | Hohbach Realty Co. LP | Apartments | 94,642,043 | 0.27 |
| 8. | SI 45 LLC | Office Building | 81,145,206 | 0.23 |
| 9. | Gwin Property Inc. | Office Building | 78,540,000 | 0.23 |
| 10. | BVK Hamilton Ave. LLC | Office Building | 73,189,015 | 0.21 |
| 11. | 530 Lytton Owner LLC | Office Building | 71,138,440 | 0.20 |
| 12. | PA Hotel Holdings LLC | Hotel | 70,028,201 | 0.20 |
| 13. | Ronald & Ann Williams Charitable Foundation | Shopping Center | 66,211,990 | 0.19 |
| 14. | Donald Ferrando Trustee | Office Building | 64,575,725 | 0.19 |
| 15. | Palo Alto Property Owner LLC | Office Building | 63,543,895 | 0.18 |
| 16. | PPC Forest Towers LLC | Apartments | 59,789,088 | 0.17 |
| 17. | 130 Lytton Owner LLC | Office Building | 57,100,623 | 0.16 |
| 18. | Pacific Land Development | Hotel | 48,665,210 | 0.14 |
| 19. | Palmetto Hospitality of Palo Alto LLC | Hotel | 48,249,572 | 0.14 |
| 20. | 529 Bryant St. Parts LLC | Office Building | 48,006,786 | 0.14 |
| | Total Top 20 | | <u>\$7,164,097,707</u> | <u>20.53%</u> |

Source: California Municipal Statistics, Inc.

(1) 2018-19 Local Secured Assessed Valuation: \$34,891,627,511.

(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 State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

Table 7
Current Sales Tax Rates

| | |
|--------------------------------|--------------|
| State General Fund | 5.75% |
| State Local Public Safety Fund | 0.50 |
| City General Fund | 1.00 |
| County Transportation | 1.75 |
| Total | <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.

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%).

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

| | FY2014-15 | FY2015-16 | FY2016-17 | FY2017-18 |
|-----------------------------|--------------------|--------------------|--------------------|-----------|
| Motor Vehicle License Fees | \$ 27,400 | \$ 27,006 | \$ 30,555 | |
| Property Tax In-Lieu of VLF | 6,270,782 | 6,780,725 | 7,362,856 | |
| TOTAL | <u>\$6,298,182</u> | <u>\$6,807,731</u> | <u>\$7,393,411</u> | |

Source: City of Palo Alto Finance Department.

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.

Rental Income. These revenues include income from the City's Enterprise Funds and the Cubberley Community Center.

From Other Agencies. These revenues consist primarily of amounts received from a variety of other local government agencies, the State, and the federal government usually due to grants or contracts for services.

Permits and Licenses. These revenues consist primarily of building construction permit fees.

Investment Earnings. These revenues consist of returns on the City's portfolio.

The following table shows the City's audited other general fund revenue sources by source for the most recent three fiscal years, unaudited actuals for fiscal year 2017-18 and budgeted other revenues for fiscal year 2018-19:

Table 9
Other Revenue Sources

| Source | FY2014-15 Audited | FY2015-16 Audited | FY2016-17 Audited | FY2017-18 Unaudited | FY2018-19 Budget |
|-------------------------|----------------------|----------------------|----------------------|------------------------|---------------------|
| Charges for Services | \$25,973 | \$23,910 | \$22,267 | | |
| Rental Income | 14,911 | 15,769 | 15,692 | | |
| From Other Agencies | 3,712 | 3,190 | 2,758 | | |
| Permits and Licenses | 7,056 | 7,912 | 7,437 | | |
| Investment Earnings (1) | 1,177 | 2,494 | (1,193) | | |
| Other Income | 1,018 | 2,591 | 760 | | |
| Total Revenues | <u>\$53,847</u> | <u>\$55,866</u> | <u>\$47,721</u> | | |

Sources: City of Palo Alto 2014-15 through 2016-17 CAFRs and City of Palo Alto 2018-19 Budget, adopted June _____, 2018.

(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% of all City employees. Approximately 71% 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

| Employee Group | Contract Expiration Date | Number of Employees |
|--|--------------------------|---------------------|
| International Association of Firefighters (IAFF) | June 30, 2018 (1) | 83 |
| Fire Chiefs' Association (FCA) | June 30, 2018 (1) | 4 |
| Palo Alto Peace Officers Association (PAPOA) | June 30, 2018 (1) | 72 |
| Palo Alto Police Managers Association (PAPMA) | June 30, 2018 (2) | 6 |
| Service Employees International Union (SEIU) | December 31, 2018 | 542 |
| Service Employees International Union Hourly Unit (SEIU-H) | June 30, 2021 | 163 |
| Utilities Management Professional Association of Palo Alto (UMPAPA) | No Existing Contract | 46 |
| Management and Professional Personnel and Council Appointees Compensation Plan | June 30, 2019 | 204 |
| Limited Hourly Employees Compensation Plan | June 30, 2017 (1) | 156 |
| Total | | 1,276 |

Source: City of Palo Alto Finance Department.

(1) Contract negotiation are currently in progress.

(2) PAPMA and City have mutually agreed to start negotiations after PAPOA negotiations are completed.

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. 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) for pension expenses. 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 | <u>\$714,019</u> | <u>\$469,782</u> | <u>\$244,237</u> | <u>\$383,556</u> | <u>\$250,474</u> | <u>\$133,082</u> |

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> |
|--------------------|----------------------|
| 2017-18 | 7.375% |
| 2018-19 | 7.250 |
| 2019-20 | 7.000 |

For public agencies like the City, the new takes 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 fiscal year 2007-08, the City elected to participate in the California Employers' Retirees Benefit Trust (CERBT) (the "Trust") to provide a funding mechanism for retiree health benefits. The Trust 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 fiscal year 2016-17 CAFR.

Early in fiscal year 2017-18, the City contributed an additional \$4.4 million to the Trust.

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) |
| 2016-17 | 16,890 | 14,647 | 87 | (19,419) |

Source: City of Palo Alto fiscal year 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

On June 5, 2018, the City caused the execution and delivery of its \$8,970,000 City of Palo Alto 2018 Certificates of Participation (Capital Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) to (a) finance the costs of the renovation of the Palo Alto Municipal Golf Course, (b) prepay, on a current basis, the outstanding City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable). Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 4.10 percent. The City's average annual payments with respect to the certificates is \$530,000 and the certificates mature on November 1, 2047.

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 September 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 September 1, 2018

CITY OF PALO ALTO

2018-19 Assessed Valuation: \$36,801,413,139

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable⁽¹⁾</u> | <u>Debt 9/1/18</u> |
|---|-----------------------------------|---------------------------------|
| Santa Clara County | 7.656% | \$ 72,519,163 |
| Foothill-De Anza Community College District | 22.105 | 137,082,806 |
| Palo Alto Unified School District | 90.084 | 242,483,017 |
| Fremont Union High School District | .010 | 41,221 |
| Los Gatos-Saratoga Joint Union High School District | .012 | 12,384 |
| Mountain View-Los Altos Union High School District | .961 | 473,608 |
| Cupertino Union School District | .017 | 44,006 |
| Los Altos School District | 1.211 | 583,278 |
| Mountain View-Whisman School District | .745 | 1,344,502 |
| Saratoga Union School District | .026 | 6,131 |
| Whisman School District | 1.959 | 256,727 |
| City of Palo Alto | 100.000 | 60,500,000⁽²⁾ |
| El Camino Hospital District | .080 | 99,592 |
| Midpeninsula Regional Open Space District | 12.970 | 11,992,062 |
| 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 | | 556,108,237 |
| <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Santa Clara County General Fund Obligations | 7.656% | \$ 43,835,421 |
| Santa Clara County Pension Obligation Bonds | 7.656 | 26,978,127 |
| Santa Clara County Board of Education Certificates of Participation | 7.656 | 381,652 |
| Foothill-DeAnza Community College District Certificates of Participation | 22.105 | 6,244,850 |
| Los Gatos-Saratoga Joint Union High School District Certificates of Participation | .012 | 531 |
| Mountain View-Los Altos Union High School District Certificates of Participation | .961 | 16,769 |
| Los Altos School District Certificates of Participation | 1.211 | 31,009 |
| Mountain View-Whisman School District Certificates of Participation | .745 | 244,733 |
| Saratoga Union School District Certificates of Participation | .026 | 919 |
| City of Palo Alto General Fund Obligations | 100.000 | 8,970,000 |
| Santa Clara County Vector Control District Certificates of Participation | 7.656 | 189,103 |
| Midpeninsula Regional Open Space Park District General Fund Obligations | 12.970 | 15,233,343 |
| TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT | | 102,126,457 |
| Less: Santa Clara County supported obligations | | <u>25,824,425</u> |
| TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT | | 76,302,032 |
| GROSS COMBINED TOTAL DEBT | | 658,234,694 ⁽³⁾ |
| NET COMBINED TOTAL DEBT | | 632,410,269 |

Ratios to 2018-19 Assessed Valuation:

| | |
|--|--------------|
| Direct Debt (\$60,500,000) | 0.16% |
| Direct and Overlapping Tax and Assessment Debt | 1.51% |
| Total Direct Debt (\$69,470,000) | 0.19% |
| Gross Combined Total Debt | 1.79% |
| Net Combined Total Debt | 1.72% |

Source: California Municipal Statistics, Inc.

(1) Based on 2017-18 ratios.

(2) 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 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. The City does not insure its facilities against the risk of earthquake. 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.

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.

Natural Calamities

General. From time to time, the City has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Leased Property, or that the City would have insurance or other resources available to make repairs to the Leased Property in order to make the Lease Payments under the Lease. See “—Abatement” above.

Seismic. Like most regions in California, the City is in an area of significant seismic activity. There are numerous earthquake faults near the City, including particularly the San Andreas and Hayward faults. The San Andreas fault runs along the Marin and Sonoma Coast through the Santa Cruz Mountains. The Hayward fault covers the hills on the east side of the San Francisco Bay and into San Pablo Bay, directly north and east of the City. Both can cause damaging earthquakes. Numerous other faults are capable of producing damaging earthquakes similar in magnitude to the 1989 Loma Prieta earthquake. Soils in lowland areas away from major faults may also be unable to support buildings during major earthquakes. Landslides are likely on hillsides during major earthquakes. Coastal areas are also at risk of tsunamis, generated from earthquakes on local faults or across the Pacific.

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. See “—Abatement” above. Damage resulting from such an event could have a material adverse effect on the City’s financial condition as well, through unexpected recovery costs and reduced tax and other revenues.

See “SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance” above. Also see “THE LEASED PROPERTY” for information about the Leased Property.

Flood. Like most of California, the City is subject to unpredictable seasonal rainfall, with periods of intense and sustained precipitation occurring every few years. The Leased Property is not located in the 100-year floodplain.

Climate Change/Sea Level Rise. Although very little of the property in the City directly abuts the San Francisco Bay, certain parcels may still be vulnerable to property damage or reductions in assessed value as a result of future sea level rise in the San Francisco Bay or other negative impacts resulting from climate change.

The predictions for sea level rise in the San Francisco Bay vary. A report released by the San Francisco Bay Conservation Development Commission (“BCDC”) predicts sea levels in the Bay to rise 16 inches by 2050 and 55 inches by 2100. The State’s Fourth Climate Change Assessment, released in 2017, estimates sea level rise for the year 2100 in the range of 14 inches to 94 inches (36 cm to 239 cm)

with an additional very low probability, worst case estimate that exceeds 108 inches (274 cm). A draft paper from the California Climate Change Center posits that increases in sea level will be a significant consequence of climate change over the next century.

Local impacts of climate change are not definitive, but parcels in the City could experience changes to local and regional weather patterns, rising bay water levels, increased risk of flooding, changes in salinity and tidal patterns of San Francisco Bay, coastal erosion, water restrictions and vegetation changes.

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 enter 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 with respect to 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.

No Reserve Fund

No debt service reserve fund has been established with respect to the Certificates.

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.

STATE BUDGET INFORMATION

The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable however the City does not guarantee the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal or interest with respect to the Certificates is payable by or the responsibility of the State.

State Budget. Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget to the State Legislature (the "Legislature") by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2010-11, the State budget had to be adopted by a two-thirds vote of each house of the Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

Potential Impact of State Financial Condition on the City. During the most recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has had a budget surplus in the more recent fiscal years, according to the State there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potential changes to federal fiscal policies and unfunded long-term liabilities of more than \$200 billion related to pensions and other post-retirement benefits. These risks and financial pressures could result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources.

No prediction can be made by the City as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, 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 future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control.

State Legislative Shifts of Property Tax Allocation. From time to time, the State has realigned certain property tax revenue to deal with its budget problems. Since 1992-93, the State has required that local agencies including cities remit a portion of property taxes received to augment school funding. These funds are deposited in each county's Education Revenue Augmentation Fund ("ERAF"). These property taxes (approximately 17.5%) are permanently excluded from the City's property tax revenues.

On July 24, 2009, the Legislature approved amendments to the 2009-10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments included borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008-09 property related tax revenues from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State was required to repay with interest within three years. The first (and to date, only) shift occurred in Fiscal Year 2009-10. The City's share of the withholding was \$355,977. Fiscal Year 2012-13 was the first year that another shift was allowable, but the State has not implemented another borrowing yet.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion in bonds to finance the Fiscal Year 2002-03 and Fiscal Year 2003-04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction were redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provided for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provided for schools to receive other state general fund revenues. The swap of sales taxes for property taxes terminated once the deficit financing bonds were repaid in September 2015. The City treated the Triple Flip property tax revenue as sales tax in its financial statements.

The City also received a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Several years ago, the State-wide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." The State VLF backfill was phased out and as of 2011-12 all of the VLF is now received through an in lieu payment from State property tax revenues.

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 AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIII A of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the 2010 Note), and (iii) (as a result of an amendment to Article XIII A approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash 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 when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various

jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Fresno County Superior Court, in *County of Orange v. Fresno County Assessment Appeals Board No. 3*, held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Fresno County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Article XIII B of the California Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years.

If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

Articles XIIIIC and XIIID of the California Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIIIIA and XIIIIC of the State Constitution. The amendments to Article XIIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIIIIC define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

Taxes. Article XIIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

Property-Related Fees and Charges. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs.

Reduction or Repeal of Taxes, Assessments, Fees and Charges. Article XIIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the Certificates could be adversely affected.

Burden of Proof. Article XIIIIC provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIIID.

Judicial Interpretation of Proposition 218. The interpretation and application of Articles XIIC and XIID will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

Impact on City's General Fund. The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

The approval requirements of Articles XIIC and XIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (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 governmental 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, (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.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Proposition 1A; Proposition 22

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 22. Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

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.

Possible Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

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 agreed, 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 March 31 of each fiscal year commencing with the report for the 2017-18 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 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 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 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. The City has established internal policies to insure that all future required filings are made as required.

Substantially all of the City's required financial information and operating data is included in its comprehensive annual financial report which is historically filed in advance of the required March 31 deadline. Reminders are received from the trustee banks for each outstanding issue. Any financial information and operating data not included in the comprehensive annual financial report is compiled by the City's Treasury staff and its Assistant Administrative Services Director. The City has established a ticker system to provide staff with advance notice so that the reports are prepared in time to allow review and timely filing.

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, Larkspur, California, as Disclosure Counsel, and by the City Attorney. The fees and expenses of Special Counsel and Disclosure Counsel are contingent upon the execution and delivery of the Certificates.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on

certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of execution and delivery of the Certificates.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Certificates under federal individual minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Certificate premium is not deductible for federal income tax purposes. Owners of premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

California Tax Status. In the further opinion of Special Counsel, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to Certificates issued prior to enactment.

The opinions expressed by Special Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Special Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest with respect to the Certificates, or as to the consequences of owning or receiving interest with respect to the Certificates, as of any future date. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

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. Other than as expressly described above, Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Certificates, the ownership, sale or disposition of the Certificates, or the amount, accrual or receipt of interest with respect to the Certificates.

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 Certificates were sold, by competitive bidding on October 25, 2018, to _____ (the “Underwriter”), at a true interest cost of _____. The purchase price to be paid by the Underwriter is \$ _____ (equal to the principal amount of the Certificates of \$ _____, plus a net original issue premium of \$ _____, less an Underwriter’s discount of \$ _____). The Underwriter intends to offer the Certificates to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. 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 year's annual financial reports can also be obtained at: <https://www.cityofpaloalto.org/gov/depts/asd/reporting.asp>

ADDITIONAL INFORMATION

To assist investors with complying with applicable Federal Home Loan Bank collateral regulations, the City presently contemplates that approximately ____% of the proceeds of the Certificates will be used to finance the acquisition, development, and/or improvement of real estate.

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, the County is the most populous county in the San Francisco Bay Area region, and one of the most affluent counties in the United States. The 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 (the “State”) for the last five years.

CITY OF PALO ALTO, SANTA CLARA COUNTY AND STATE OF CALIFORNIA

Population (as of January 1)

| Year | City of Palo Alto | Santa Clara County | State of California |
|------|----------------------|-----------------------|------------------------|
| 2014 | 67,633 | 1,880,197 | 38,568,628 |
| 2015 | 68,312 | 1,905,156 | 38,912,464 |
| 2016 | 69,184 | 1,924,582 | 39,179,627 |
| 2017 | 69,446 | 1,937,473 | 39,500,973 |
| 2018 | 69,721 | 1,956,598 | 39,809,693 |

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

| | 2013 | 2014 | 2015 | 2016 | 2017 ⁽¹⁾ |
|---|---------|---------|-----------|-----------|---------------------|
| Total, All Industries | 950,700 | 991,000 | 1,028,900 | 1,060,600 | 1,086,900 |
| Total Farm | 3,300 | 3,500 | 3,700 | 3,900 | 3,500 |
| Mining and Logging | 300 | 300 | 200 | 300 | 200 |
| Construction | 36,700 | 38,800 | 42,900 | 47,600 | 48,300 |
| Manufacturing | 153,600 | 156,700 | 160,200 | 161,300 | 163,400 |
| Wholesale Trade | 36,000 | 36,900 | 36,800 | 37,400 | 35,200 |
| Retail Trade | 82,500 | 83,900 | 85,100 | 85,000 | 85,000 |
| Transportation, Warehousing & Utilities | 13,400 | 13,900 | 14,100 | 14,800 | 14,900 |
| Information | 58,600 | 65,600 | 70,400 | 74,500 | 85,000 |
| Financial Activities | 33,300 | 33,800 | 34,200 | 35,200 | 35,800 |
| Professional & Business Services | 190,100 | 201,800 | 215,200 | 224,100 | 226,400 |
| Educational & Health Services | 142,600 | 148,700 | 154,900 | 160,600 | 167,400 |
| Leisure & Hospitality | 86,300 | 90,700 | 94,500 | 97,600 | 100,800 |
| Other Services | 25,000 | 26,000 | 26,500 | 27,000 | 28,200 |
| Government | 89,000 | 90,600 | 90,100 | 91,200 | 92,800 |

Source: California Employment Development Department, based on March 2018 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 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⁾ |
|---------------------|--------------------|-------------|-------------|--------------|----------------------------------|
| 2013 | Santa Clara County | 923,200 | 860,100 | 63,200 | 6.8% |
| | California | 18,811,400 | 17,397,100 | 1,414,300 | 7.5 |
| | United States | 155,389 | 143,929,000 | 11,460,000 | 7.4 |
| 2014 | Santa Clara County | 995,600 | 943,800 | 51,800 | 5.2 |
| | California | 18,981,800 | 17,798,600 | 1,183,200 | 6.2 |
| | 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 | 19,102,700 | 18,065,000 | 1,037,700 | 5.4 |
| | United States | 157,130,000 | 148,834,000 | 8,296,000 | 5.3 |
| 2016 | 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 | 7,751,000 | 4.9 |
| 2017 ⁽²⁾ | Santa Clara County | 1,042,000 | 1,008,600 | 33,400 | 3.2 |
| | California | 19,312,000 | 18,393,100 | 918,900 | 4.8 |
| | United States | 160,320,000 | 153,337,000 | 6,982,000 | 4.4 |

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-2017, 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 | 0.95 |
| Intel Corp. | 8,500 | 0.86 |
| Total Top 10 | 146,282 | 14.81% |

Source: Santa Clara County fiscal year 2016-17 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)

| | 2013 | 2014 | 2015 | 2016 | 2017 ⁽¹⁾ |
|----------------------------|-----------|-----------|-----------|-----------|---------------------|
| Permit Valuation: | | | | | |
| New Single-family | \$ 44,914 | \$ 53,439 | \$ 73,403 | \$ 58,795 | \$ 76,244 |
| New Multi-family | 17,243 | 1,611 | 68,911 | 5,764 | 9,262 |
| Res. Alterations/Additions | 31,663 | 47,974 | 41,848 | 36,423 | 70,538 |
| Total Residential | 93,821 | 103,025 | 184,163 | 100,983 | 156,046 |
| Total Nonresidential | 358,254 | 258,899 | 277,837 | 298,797 | 357,789 |
| Total All Building | \$452,076 | \$361,925 | \$462,000 | \$399,780 | 513,835 |
| New Dwelling Units: | | | | | |
| Single Family | 81 | 93 | 119 | 96 | 119 |
| Multiple Family | 100 | 6 | 210 | 30 | 28 |
| Total | 181 | 99 | 329 | 126 | 147 |

Source: Construction Industry Research Board: "Building Permit Summary."

(1) Latest available full year data.

Note: Totals may not add due to independent rounding.

SANTA CLARA COUNTY
Building Permits and Valuation
(Dollars in Thousands)

| | 2013 | 2014 | 2015 | 2016 | 2017 ⁽¹⁾ |
|----------------------------|-------------|-------------|-------------|-------------|---------------------|
| <u>Permit Valuation:</u> | | | | | |
| New Single-family | \$ 694,884 | \$ 594,472 | \$ 653,970 | \$ 660,301 | \$ 732,652 |
| New Multi-family | 941,420 | 1,196,127 | 706,781 | 564,761 | 1,027,651 |
| Res. Alterations/Additions | 423,739 | 439,747 | 505,844 | 484,820 | 547,991 |
| Total Residential | 2,060,044 | 2,230,347 | 1,866,595 | 1,709,882 | 2,308,295 |
| Total Nonresidential | 6,264,620 | 2,655,412 | 3,589,800 | 4,698,158 | 3,359,316 |
| Total All Building | \$8,324,665 | \$4,885,760 | \$5,456,396 | \$6,408,041 | 5,667,612 |
| <u>New Dwelling Units:</u> | | | | | |
| Single Family | 1,859 | 1,602 | 1,710 | 1,608 | 2,022 |
| Multiple Family | 6,009 | 8,310 | 3,906 | 3,297 | 6,629 |
| Total | 7,868 | 9,912 | 5,616 | 4,905 | 8,631 |

Source: Construction Industry Research Board: "Building Permit Summary."

(1) Latest available full year data.

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 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.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

INVESTMENT POLICY OF THE CITY

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

[TO COME]

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX E

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

[TO COME]

THIS PAGE INTENTIONALLY LEFT BLANK

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 (California Avenue Parking Garage) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 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
(California Avenue Parking Garage)

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

THIS PAGE INTENTIONALLY LEFT BLANK

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"):

WHEREAS, 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") desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

WHEREAS, the City has additionally proposed to lease a City asset, initially the Rinconada Library, located at 1213 Newell Road (or another property identified by City 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 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 (the "Lease Payments");

WHEREAS, as described in the Property Lease and the Lease Agreement, upon the construction and the substantial readiness of the California Avenue Parking Garage for use and occupancy by the City, the California Avenue Parking Garage will be the Leased Property subject to the Property Lease and the Lease Agreement, and the Rinconada Library will be released;

WHEREAS, the Corporation proposes to assign its right to receive the 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 the 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, it is hereby **ORDERED** and **DETERMINED**, 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;

(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 the Lease Payments to be made by the City under the Lease Agreement; and

(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 the Lease Payments thereunder, to the Trustee.

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.

Section 3. The Corporation hereby approves the competitive sale of the Certificates in accordance with the Notice of Sale in substantially the form on file with the Corporation.

* * * * *

I hereby certify that the foregoing resolution was duly adopted at a meeting of the Palo Alto Public Improvement Corporation held on the 15th day of October, 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

RECORDING REQUESTED BY, AND
WHEN RECORDED, RETURN TO:

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

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 27383
OF THE CALIFORNIA GOVERNMENT CODE.

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).

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 City desires to finance the costs of acquiring and constructing a parking garage to be located at 350 Sherman Avenue (the "California Avenue Parking Garage");

WHEREAS, in order to finance the California Avenue Parking Garage, the City has determined to provide for the execution and delivery of City of Palo Alto 2018 Certificates of Participation (California Avenue Parking Garage) (the "Certificates");

WHEREAS, the City has concurrently leased 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"), which is recorded concurrently herewith, a City asset, initially the Rinconada Library, as more particularly described in Exhibit A hereto (the "Leased Property"), 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") which is recorded concurrently herewith, in consideration of the payment by the City of semi-annual Lease Payments (as defined in the Lease Agreement);

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. Substitution of Leased Property. As set forth in Section 3.5 of the Lease Agreement, upon Final Completion (as defined in the Lease Agreement) of the California Avenue Parking Garage, the City shall have the absolute right to make the California Avenue Parking Garage and its related site, as described in Exhibit A hereto, the Leased Property subject to the Property Lease and the Lease Agreement, and to release the Rinconada Library from the Property Lease and the Lease Agreement. The City shall effectuate such release by (1) certifying, in a certificate of completion provided to the Trustee, that the Final Completion of the California Avenue Parking Garage has occurred and (2) causing a Notice of Substitution and Release of Leased Property, substantially in the form attached as Exhibit D to the Lease Agreement, to be recorded in the real property records of Santa Clara County. Subsequent to the execution and recordation of such Notice of Substitution and Release of Leased Property, subject to any future authorized substitution or release of the Leased Property pursuant to Section 3.5 and 3.6 of the Lease Agreement, references to the Leased Property herein shall be deemed to refer to the California Avenue Parking Garage and the related site and shall not be deemed to refer to the Rinconada Library so released.

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

By _____
Liz Kniss
President

Attest:

By _____
Beth Minor
Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
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 LEASED PROPERTY

The land referred to herein is situated in the State of California, County of Santa Clara, City of Palo Alto and described as follows:

Initial Leased Property: Rinconada Library (APN: 003-47-020)

The Rinconada Library (formerly the Main Library), was designed by Edward Durell Stone, opened in 1958 following a voter approved bond measure that also funded the construction of the Mitchell Park Library. The library is located on Newell Road across from the Palo Alto Art Center. The building is 28,716 square feet, including a 5,000 square foot basement. This library has the largest collection in the system, including the principal reference collection and the archives of the Palo Alto Historical Association. It serves primarily adults and teens and has a very small children's collection.

While the building has received small remodels over the years, it needed a total renovation to bring it up to current codes and standards and to provide needed spaces to accommodate needs of its users. In 2014, over \$21.7 million renovation occurred that was funded by a voter approved \$76 million General Obligation bonds. The renovation brought the building to current codes and standard and included significant seismic improvements. A new wing was build off of south entrance with meeting room seating 100, added were additional restrooms, four small group study rooms off the ends of the reading room, a dedicated room for teens, upgraded lighting and electrical systems to support use of technology, new mechanical systems, including radiant heating and cooling system in the floor, and new carpet and paint. The library project area has approximately 175 trees, of these, over two dozen trees were removed and/or relocated with an equal number of new trees being planted. Some of the trees on the site were removed due to poor health or due to conflicts with other neighboring trees, others conflicted with the new geothermal wells and piping while others were removed to accommodate the project site improvements.

Leased Property Upon Final Completion: California Avenue Parking Garage (APN: 124-33-059)

The California Avenue Parking Garage is part of the City Council Infrastructure Plan. Construction of the garage is a key step in the delivery of a new Public Safety Building (PSB). The PSB will be built on the adjacent property at 250 Sherman Avenue that currently provides approximately 150 public parking stalls. The proposed parking garage, at 350 Sherman Avenue, will be located on the City's existing surface Parking Lot C-7. The parking garage will be four levels above grade and two stories below grade, with 636 public parking spaces serving the needs of the California Avenue business district. The new garage will replace existing stalls at the two locations and provide approximately 310 new parking stalls to the California Avenue business district. The parking structure will fill its site to nearly the property lines and utilize strategies such as a signature exterior grand staircase and landscaped setback (on Birch Street), a widened sidewalk (on Ash Street), and a partial-block pedestrian arcade leading to a mid-block paseo (on Jacaranda Lane) to provide appropriately scaled site amenities. Construction

will involve a cut-off wall to limit groundwater impact, cast-in-place post-tensioned structural concrete, and provisions for an integrated solar canopy. The height of the California Avenue Parking Garage will be approximately 49'-0" above sidewalk level to the top of roof-mounted photovoltaic (PV) panels.

As a public-serving amenity, the garage's key design imperatives include ease of wayfinding, generosity toward the pedestrian environment, and a perimeter skin that offers an appropriate visual character when viewed by its neighbors

Attachment C

2018 (Tax-Exempt) Certificate of Participation California Avenue Parking Garage Estimated Cost of Issuance (COI) and Underwriter's Discount Fee

Cost of Issuance:

| | |
|--|-------------------|
| Bond Counsel (Jones Hall), includes expenses | \$ 47,500 |
| Disclosure Counsel (Quint & Thimmig, LLP) | 31,850 |
| Municipal (Financial) Advisor (Public Financial Management, Inc.), includes expenses | 56,000 |
| Trustee (U.S. Bank) | 11,350 |
| Title (Stewart) | 36,260 |
| Rating Agency (Standard & Poor's) | 30,000 |
| Printer | 3,000 |
| Miscellaneous/Contingency Fees | 10,000 |
| Total Cost of Issuance | \$ 225,960 |
| Underwriters' Discount Fee (Estimated) * | 184,525 |
| Total Estimated COP Bonds Issuance Fees | \$ 410,485 |

* Underwriter's discount fee is likely to vary from this estimate; it's based on 1.5% of par bond issuance or \$15 per bond
For the alternative bond issuance mix (75% tax-exempt and 25% taxable), the total estimated issuance cost is \$417,385.