

**RESOLUTION NO. FA2018-01**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ELK GROVE FINANCE AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF LEASE REVENUE BONDS IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$19,210,000 TO FINANCE A CAPITAL FACILITY PROJECT OF THE CITY OF ELK GROVE, AND APPROVING RELATED DOCUMENTS AND OFFICIAL ACTIONS**

**WHEREAS**, the City of Elk Grove (the "City") is proceeding to acquire land for public uses and improvements, including construction of an animal shelter and related facilities, as well as a park, and the acquisition of furnishings and equipment related to such facilities and incidental expenses related thereto (collectively, the "Project"), all which comprise capital projects of benefit to the City and its citizens; and

**WHEREAS**, in order to provide financing for a portion of the cost of the Project, the City has proposed to lease the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (collectively, the "Leased Property") to the Elk Grove Finance Authority (the "Authority") under a Site Lease anticipated to be dated as of March 1, 2018, in consideration of the payment by the Authority of an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes; and

**WHEREAS**, the Authority proposes to issue and sell its 2018 Lease Revenue Bonds (Capital Facilities), in the principal amount of not to exceed \$19,210,000 (the "Bonds") under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease, and thereby provide financing for a portion of the cost of the Project; and

**WHEREAS**, in order to secure the payments of principal of and interest on the Bonds, the Authority proposes to lease the Leased Property back to the City under a Lease Agreement anticipated to be dated as of March 1, 2018 (the "Lease Agreement"), under which the City is obligated to pay semiannual lease payments as rental for the Leased Property; and

**WHEREAS**, to provide for development of the most favorable debt structure for the City and to ensure the most favorable reception in the market place for the Bonds, the City has requested the Authority to sell the Bonds through a negotiated sale pursuant to the terms of a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Authority, the City and Stifel, Nicolaus & Company, Incorporated, as underwriter (the "Underwriter"); and

**WHEREAS**, the Board of Directors of the Authority wishes at this time to take action approving such financing transactions and all related documents and actions.

**NOW, THEREFORE, IT IS HEREBY RESOLVED** by the Board of Directors of the Elk Grove Finance Authority as follows:

**Section 1. Approval of Financing Plan; Authorization of Bonds.** The Board of Directors hereby approves the financing plan described in the recitals of this Resolution. To that end, the Board of Directors hereby authorizes the issuance of the Bonds under the Bond Law in the principal amount of not to exceed \$19,210,000 for the purpose of providing financing for a portion of the cost of the Project. The Bonds shall be issued under the Indenture of Trust which is approved below.

**Section 2. Approval of Related Financing Agreements.** The Board of Directors hereby approves each of the following agreements required to implement the financing plan to be accomplished by the Bonds, in substantially the respective forms on file with the Secretary together with any changes therein or additions thereto deemed advisable by the President, Executive Director or the Treasurer (each, an "Authorized Officer"), including provisions for municipal bond insurance, and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

- Indenture of Trust between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), prescribing the terms and conditions upon which the Bonds will be issued and which may include provisions for insurance on the bonds if an Authorized Officer determines insuring the bonds will result in a lower cost of the financing.
- Site Lease between the City as lessor and the Authority as lessee, under which the City leases the Leased Property to the Authority in consideration of the payment of the Site Lease Payment which will be applied by the City to finance a portion of the costs of the Projects.
- Lease Agreement between the Authority as lessor and the City as lessee, under which the Authority leases the Leased Property back to the City and the City agrees to pay semiannual lease payments which are sufficient to provide for payment of principal of and interest on the Bonds when due; and
- Assignment Agreement, between the Authority and the Trustee, whereby the Authority assigns certain of its rights under the Lease Agreement to the Trustee for the benefit of the Bond owners.
- Bond Purchase Agreement among the Authority, the City and the Underwriter, under which the Underwriter agrees to purchase the Bonds from the Authority in the event of a negotiated sale.

An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the Authority to execute, and the Secretary is hereby authorized and directed to attest the final form of each of the foregoing agreements.

**Section 3. Sale of Bonds.** The Board of Directors hereby approves the sale of the Bonds by the Authority by negotiation with the Underwriter pursuant to the Bond Purchase Agreement, provided the true interest cost on the Bonds shall not exceed

3.95%, and the underwriter's discount or fee (excluding original issue discount, if any) for the Bonds shall not exceed 0.45% of the principal amount of the Bonds. The Bond Purchase Agreement in substantially the form on file with the Secretary, together with any changes therein or additions thereto deemed advisable by any Authorized Officer, each of whom acting alone is hereby authorized and directed to execute and deliver said form of Purchase Agreement on behalf of the Authority, and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

**Section 4. Official Statement.** The Board of Directors hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the Secretary, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of the Authority. The Board of Directors hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

**Section 5. Official Actions.** The President, the Vice President, the Administrator, the Treasurer/Controller, the Secretary and all other officers of the Authority are each authorized and directed in the name and on behalf of the Authority to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this Resolution any officer of the Authority 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 is absent or unavailable.

**Section 6. Effective Date.** This Resolution shall take effect immediately upon its passage and adoption.

**PASSED AND ADOPTED** by the Board of Directors of the Elk Grove Finance Authority this 14th day of March 2018.



STEVE LY, PRESIDENT of the  
ELK GROVE FINANCE AUTHORITY

ATTEST:



JASON LINDGREN,  
SECRETARY

APPROVED AS TO FORM:



JONATHAN P. HOBBS,  
LEGAL COUNSEL



## EXHIBIT A

TO BE RECORDED AND WHEN RECORDED  
RETURN TO:

Jones Hall  
A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

### SITE LEASE

This SITE LEASE (this "Site Lease"), dated for convenience as of \_\_\_\_\_ 1, 2018, is between the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, as lessee (the "Authority").

#### BACKGROUND:

1. The City is proceeding to acquire land for public uses and improvements, including construction of a park and animal shelter and related facilities, and the acquisition of furnishings and equipment related to such facilities and incidental expenses related thereto (collectively, the "Project").

2. In order to provide funds to finance a portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (collectively, the "Leased Property," as further described in Exhibit A hereto and subject to substitution and release as provided in the Lease described below), to the Authority under this Site Lease, in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds") under an Indenture of Trust dated as of \_\_\_\_\_ 1, 2018 (the "Indenture"), between the Authority and U.S. Bank

National Association, as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with this Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of \_\_\_\_\_ 1, 2018 (the "Lease"), which has been recorded concurrently herewith, under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

#### A G R E E M E N T :

*In consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:*

SECTION 1. *Lease of Property to Authority.* The City hereby leases the Leased Property to the Authority and the Authority hereby leases the Leased Property from the City, on the terms and conditions hereinafter set forth.

SECTION 2. *Term; Possession.* The term of this Site Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 13.01 thereof, but under any circumstances not later than November 1, 20\_\_\_. The provisions of this Section 2 are subject in all respects to any other provisions of this Site Lease relating to the termination hereof.

SECTION 3. *Rental.* The Authority shall pay to the City as and for rental of the Leased Property hereunder, the sum of \$ \_\_\_\_\_ (the "Site Lease Payment"). The Site Lease Payment is due and payable upon the issuance of the Bonds and the execution and delivery hereof, and will be paid from the proceeds of the Bonds. The Authority and the City hereby find and determine that the total amount of the Site Lease Payment does not exceed the fair market value of the leasehold interest in the Leased Property which is conveyed hereunder by the City to the Authority. No other amount of rental is due and payable by the Authority for the use and occupancy of the Leased Property under this Site Lease.

As provided in the Indenture, a portion of the proceeds of the Bonds will be applied to make the Site Lease Payment by depositing the full amount thereof into the Project Fund which is held and administered by the City under the Indenture. Amounts on deposit in the Project Fund shall be disbursed by the City from time to time for the purpose of paying Project Costs in accordance with the Indenture.

SECTION 4. *Leaseback to City.* The Authority shall lease the Leased Property back to the City under the Lease.

SECTION 5. *Assignments and Subleases.* Unless the City is in default under the Lease, the Authority may not assign its rights under this Site Lease or sublet all or any portion of the Leased Property, except as provided in the Assignment Agreement and in the Lease, without the prior written consent of the City.

SECTION 6. *Substitution or Release of Property.* If the City exercises its option under Section 3.3 of the Lease to substitute property for the Leased Property in whole or in part, such substitution shall also operate to substitute property for the Leased Property which is leased hereunder. If the City exercises its option under Section 3.4 of the Lease to release a portion of the Leased Property from the Lease, such substitution shall also operate to release such portion of the Leased Property hereunder. The description of the Leased Property which is leased under the Lease shall conform at all times to the description of the Leased Property which is leased hereunder.

SECTION 7. *Right of Entry.* The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property, or any portion thereof, at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

SECTION 8. *Termination.* The Authority agrees, upon the termination of this Site Lease, to quit and surrender the Leased Property in the same good order and condition as the Leased Property was in at the time of commencement of the term hereof, reasonable wear and tear excepted, and agrees that all buildings, improvements and structures then existing upon the Leased Property shall remain thereon and title thereto shall vest thereupon in the City for no additional consideration.

SECTION 9. *Default.* If the Authority defaults in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for 30 days following notice and demand for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of this Site Lease and of the Lease shall be deemed to occur as a result thereof and no such remedy may include termination hereof; *provided, however,* that so long as the Lease remains in effect, the Lease Payments payable by the City under the Lease shall continue to be paid to the Trustee.

SECTION 10. *Quiet Enjoyment.* The Authority at all times during the term of this Site Lease shall peaceably and quietly have, hold and enjoy all of the Leased Property, subject to the provisions of the Lease and subject only to Permitted Encumbrances (as that term is defined in the Lease).

SECTION 11. *Waiver of Personal Liability.* All liabilities under this Site Lease on the part of the Authority are solely corporate liabilities of the Authority as a public entity, and the City hereby releases each and every member and officer of the Authority of and from any personal or individual liability under this Site Lease. No member or officer of the Authority or its governing board shall at any time or under any circumstances be individually or personally liable under this Site Lease for anything done or omitted to be done by the Authority hereunder.

SECTION 12. *Taxes.* The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property and any improvements thereon.

SECTION 13. *Eminent Domain.* If the whole or any part of the Leased Property or any improvements thereon is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is hereby determined to be the amount of the then unpaid Lease Payments payable under the Lease and the balance of the award, if any, shall be paid to the City.

SECTION 14. *Partial Invalidity.* If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. *Notices.* Any notice, request, complaint, demand or other communication under this Site Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The City, the Authority and the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the Authority or the City:* City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758  
Attention: Finance  
Fax: 916-691-2001

*If to the Trustee:* U.S. Bank National Association  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, Washington 98101  
Attention: Corporate Trust Services  
Fax: (206) 344-4630

SECTION 16. *Amendment of this Site Lease.* The Authority and the City may at any time amend or modify any of the provisions of this Site Lease, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to make cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such



modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds;

- (ii) to amend any provision hereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;
- (iii) to conform to any amendment of the Indenture which is made thereto in accordance with Section 9.01 of the Indenture; or
- (iv) for the purpose of effectuating any substitution or release of property under Section 6.

SECTION 17. *Governing Law.* This Site Lease shall be construed in accordance with and governed by the laws of the State of California.

SECTION 18. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary under this Site Lease with all rights of a third party beneficiary.

SECTION 19. *Binding Effect.* This Site Lease inures to the benefit of and is binding upon the Authority, the City and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 20. *Section Headings.* All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Site Lease.

SECTION 21. *Execution in Counterparts.* This Site Lease may be executed in any number of counterparts, each of which shall be deemed to be an original but all together shall constitute but one and the same lease. It is also agreed that separate counterparts of this Site Lease may be separately executed by the Authority and the City, all with the same force and effect as though the same counterpart had been executed by both the Authority and the City.

SECTION 22. *Defined Terms.* All capitalized terms used herein and not otherwise defined have the respective meanings given those terms in the Indenture.

IN WITNESS WHEREOF, the City and the Authority have caused this Site Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

**CITY OF ELK GROVE, as lessor**

By \_\_\_\_\_  
Authorized Official

(S E A L)

Attest:

\_\_\_\_\_  
City Clerk

Approved as to Form:

\_\_\_\_\_  
City Attorney

**ELK GROVE FINANCE AUTHORITY, as lessee**

By \_\_\_\_\_  
Authorized Official

Attest:

\_\_\_\_\_  
Secretary

Approved as to Form:

\_\_\_\_\_  
General Counsel

## APPENDIX A

### DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, State of California, which is more particularly described as follows:

#### **Tract One:**

All of Parcel A as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20000418/1128, Official Records of Sacramento County, together with all that portion of Parcel 1 as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20010808/1248, Official Records of Sacramento County, described as follows:

Beginning at the Northwest corner of said Parcel A; thence from said point of beginning, along the Northerly and Easterly lines of said Parcel A the following six (6) courses: (1) North 72 deg. 12' 39" East 145.99 feet; (2) along the arc of a curve to the right, concave Southerly, having a radius of 500.00 feet, subtended by a chord bearing North 81 deg. 10' 04" East 155.68 feet; (3) South 89 deg. 52' 33" East 67.51 feet; (4) South 00 deg. 53' 37" East 98.32 feet; (5) South 12 deg. 16' 04" West 118.63 feet and (6) South 08 deg. 30' 52" West 76.02 feet to the Northwest corner of said Parcel 1; thence along the Northerly and Easterly lines of said Parcel 1 the following four (4) courses: (1) South 89 deg. 56' 31" East 234.51 feet; (2) South 34 deg. 52' 30" East 71.50 feet; (3) south 67 deg. 50' 31" West 6.88 feet and (4) South 89 deg. 54' 04" West 63.76 feet; thence leaving said Easterly line South 89 deg. 54' 04" West 212.96 feet to a point in the Easterly line of the aforementioned Parcel A; thence along the Easterly and Southerly and Westerly lines of said Parcel A the following four (4) courses: (1) South 07 deg. 04' 19" West 5.06 feet; (2) South 00 deg. 37' 56" East 66.94 feet; (3) South 43 deg. 06' 56" West 75.68 feet and (4) along the arc of a curve to the right, concave Northeasterly, having a radius of 1000.00 feet, subtended by a chord bearing North 32 deg. 58' 24" West 488.99 feet to the point of beginning. Shown as Parcel 1 on Lot Line Adjustment recorded March 18, 2002 in Book 20020318, Page 378 of Official Records.

APN: 116-0860-047-0000

#### **Tract Two:**

All that portion of Parcels 2, 3,4 and 5 as shown on that certain Parcel Map filed in Book 141 of Parcel Maps, Page 8, together with all that portion of Lot 13 as shown on the plat of Laguna Palms Office Park filed in Book 219 of Maps, Map No. 2, Official Records of Sacramento County, described as follows:

Beginning at the intersection of the centerline of Laguna Palms Way and Studio Court as shown on said plat; thence from said point of beginning, along the centerline of said Studio Court South 22° 09' 29" East, 211.29 feet; thence leaving said centerline along the Northerly line of the adjusted lot line as shown within that certain Document filed in Book 98-0001137, Official Records of Sacramento County, and the Easterly prolongation thereof South 67° 50' 31" West, 226.00 feet to a point in the Easterly line of said Parcel 3; thence along the Easterly line of said Parcels 3, 4 and 5 the following

two (2) courses: (1) South 22° 09' 29" East, 15.00 feet and (2) South 28° 06' 55" East, 120.65 feet; thence leaving said Easterly line South 67° 50' 31" West, 33.85 feet; thence North 34° 52' 30" West, 71.50 feet; thence North 89° 56' 31" West, 234.51 feet; thence North 08° 30' 52" East, 76.02 feet; thence North 12° 16' 04" East, 118.63 feet; thence North 00° 53' 37" West, 98.32 feet to a point in the aforementioned centerline of said Laguna Palms Way; thence along said centerline the following three (3) courses: (1) South 89° 52' 33" East, 68.41 feet; (2) along the arc of a curve to the left, concave Northerly, having a radius of 500.00 feet, subtended by a chord bearing North 80° 05' 46" East, 174.13 feet and (3) North 70° 04' 05" East, 105.28 feet to the point of beginning. Said land is shown as Parcel "B" on that certain Lot Line Adjustment Resolution No. 00-BLS-0051, recorded April 18, 2000 in Book 20000418 of Official Records, at Page 1128.

APN: 116-0860-029-0000

**Tract Three:**

Parcels 5 and 6, as shown on that certain Parcel Map filed in the Office of the Recorder of the County of Sacramento, State of California on September 6, 2002, in Book 167 of Parcel Maps at Page 24.

Also shown as Resultant Lot 1, on Boundary Line Adjustment recorded March 09, 2004 in Book 20040309 Page 1707, of Official Records

APN: 116-0860-048-0000

(End of Legal Description)

**EXHIBIT B**

**TO BE RECORDED AND WHEN RECORDED**

**RETURN TO:**

Jones Hall, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11922 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

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**LEASE AGREEMENT**

Dated as of \_\_\_\_\_, 1, 2018

between the

**ELK GROVE FINANCE AUTHORITY,**  
*as lessor*

and the

**CITY OF ELK GROVE,**  
*as lessee*

Relating to

\$ \_\_\_\_\_  
**Elk Grove Finance Authority**  
**2018 Lease Revenue Bonds**  
**(Capital Facilities)**

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## LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease"), dated for convenience as of \_\_\_\_\_ 1, 2018, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, as lessor (the "Authority"), and the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "City").

### BACKGROUND:

1. The City is proceeding to acquire land for public uses and improvements, including construction of a park and animal shelter and related facilities, and the acquisition of furnishings and equipment related to such facilities and incidental expenses related thereto (collectively, the "Project").

2. In order to provide funds to finance a portion of the cost of the Project, the City has leased the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (collectively, the "Leased Property," as further described in Exhibit A hereto), to the Authority under a Site Lease dated as of \_\_\_\_\_ 1, 2018 (the "Site Lease"), in consideration of the payment by the Authority of an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds") under an Indenture of Trust dated as of \_\_\_\_\_ 1, 2018 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under this Lease, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property hereunder.

5. The lease payments made by the City under this Lease have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.



6. The City and the Authority have found and determined that all acts and proceedings required by law necessary to make this Lease, when executed by the City and the Authority, the valid, binding and legal obligations of the City and the Authority, and to constitute this Lease a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Lease have been in all respects duly authorized.

#### **A G R E E M E N T :**

In consideration of the material covenants contained in this Lease, the parties hereto hereby formally covenant, agree and bind themselves as follows:

#### **ARTICLE I**

#### **DEFINITIONS; RULES OF INTERPRETATION**

SECTION 1.1. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Lease have the respective meanings given them in the Indenture.

SECTION 1.2. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular includes the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and includes the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Lease; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or subdivision hereof.

## ARTICLE II

### COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 2.1. *Covenants, Representations and Warranties of the City.* The City makes the following covenants, representations and warranties to the Authority and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The City is a municipal corporation duly organized and validly existing under the laws of the State of California, has full legal right, power and authority under the laws of the State of California to enter into the Site Lease and this Lease and to carry out and consummate all transactions contemplated hereby, and by proper action the City has duly authorized the execution and delivery of the Site Lease and this Lease.
- (b) Due Execution. The representatives of the City executing the Site Lease and this Lease have been fully authorized to execute the same under a resolution duly adopted by the City Council of the City.
- (c) Valid, Binding and Enforceable Obligations. The Site Lease and this Lease have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of the Site Lease and this Lease, the consummation of the transactions therein and herein contemplated and the fulfillment of or compliance with the terms and conditions thereof and hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial condition, assets, properties or operations of the City.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Site Lease and this Lease, or the consummation of any transaction therein and herein contemplated, except as have been obtained or made and as are in full force and effect.

- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Site Lease and this Lease, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial conditions, assets, properties or operations of the City.

SECTION 2.2. *Covenants, Representations and Warranties of the Authority.*  
The Authority makes the following covenants, representations and warranties to the City and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The Authority is a public body corporate and politic duly organized and existing under the Bond Law and under the laws of the State of California; has power to enter into this Lease, the Site Lease, the Assignment Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.
- (b) Due Execution. The representatives of the Authority executing this Lease, the Site Lease, the Assignment Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.
- (c) Valid, Binding and Enforceable Obligations. This Lease, the Site Lease, the Assignment Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of this Lease, the Site Lease, the Assignment Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or

imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.

- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.
  
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

### **ARTICLE III**

#### **DEPOSIT AND APPLICATION OF FUNDS; SUBSTITUTION AND RELEASE OF PROPERTY**

SECTION 3.1. *Deposit of Moneys.* On the Closing Date, the Authority will cause the proceeds of sale of the Bonds to be deposited with the Trustee. The Trustee shall deposit those proceeds in accordance with Section 3.01 of the Indenture.

SECTION 3.2. *Acquisition and Construction of Project.* As provided in Section 3.02 of the Indenture, a portion of the proceeds of sale of the Bonds will be applied to pay the Site Lease Payment to the City in accordance with Section 3 of the Site Lease. The Site Lease Payment shall be deposited into the Project Fund which is established under the Indenture, to be disbursed for the purpose of paying Project Costs. Upon the completion of the Project, the City shall file a Written Certificate of the City with the

Trustee, which Written Certificate shall identify the amount (if any) to be retained in the Project Fund to pay remaining Project Costs.

SECTION 3.3. *Substitution of Property.* The City has the option at any time and from time to time, to substitute other real property (the "Substitute Property") for the Leased Property or any portion thereof (the "Former Property"), upon satisfaction of all of the following requirements which are hereby declared to be conditions precedent to such substitution:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of this Lease, the Site Lease and the Assignment Agreement, which adds the legal description of the Substitute Property to Appendix A and deletes therefrom the legal description of the Former Property.
- (c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate hereunder in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to be important to the proper, efficient and economic operation of the City and to serve a proper governmental function of the City.
- (e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made herein.
- (f) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidence stating that the estimated fair rental value of the Leased Property following the substitution will be at least equal to the aggregate principal amount of the Bonds then outstanding, and that the useful life of the Substitute Property at least extends to the stated termination date of this Lease.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this Section. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Former Property and

to cause the Substitute Property to become subject to all of the terms and conditions of the Site Lease, this Lease and the Assignment Agreement.

SECTION 3.4. *Release of Property.* The City has the option at any time and from time to time to release any portion of the Leased Property from this Lease (the "Released Property") provided that the City has satisfied all of the following requirements which are hereby declared to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of this Lease, the Site Lease and the Assignment Agreement, which removes the Released Property from the Site Lease, this Lease and the Assignment Agreement.
- (c) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to this Lease following such release is at least equal to the then outstanding principal amount of the Bonds, and the fair rental value of the property which remains subject to this Lease following such release is at least equal to the Lease Payments thereafter coming due and payable hereunder.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Released Property.

## **ARTICLE IV**

### **LEASE OF LEASED PROPERTY; TERM OF THIS LEASE; LEASE PAYMENTS**

SECTION 4.1. *Lease of Leased Property.* The Authority hereby leases the Leased Property to the City and the City hereby leases the Leased Property from the Authority, upon the terms and conditions set forth in this Lease.

SECTION 4.2. *Term.* The Term of this Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 10.01 thereof, but under any circumstances not later than November 1, \_\_\_\_\_. The provisions of this Section are subject to the provisions of Section 6.2 relating to abatement and the taking in eminent domain of the Leased Property in whole or in part.

### SECTION 4.3. *Lease Payments.*

(a) Obligation to Pay. Subject to the provisions of Sections 6.2 and 6.3 and the provisions of Article IX, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in Appendix B attached to this Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in Appendix B, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in Appendix B. Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole under Article IX, and amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid hereunder. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee. The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

(b) Effect of Prepayment. If the City prepays all Lease Payments in full under Section 9.2, the City's obligations under this Section will thereupon cease and terminate. If the City prepays the Lease Payments in part but not in whole under Section 9.2, the principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis which corresponds to the principal maturities of the Bonds which are redeemed thereby; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed under Section 4.01 of the Indenture.

(c) Rate on Overdue Payments. If the City fails to make any of the payments required in this Section, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding Bond.

(d) Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable 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 represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under this Lease, 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.

(e) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, under the Assignment Agreement, for the benefit of the Owners of the Bonds, and the City hereby assents to

such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at its Office, all payments payable by the City under this Section and all amounts payable by the City under Article IX.

SECTION 4.4. *Source of Payments; Covenant to Budget and Appropriate.* The Lease Payments are payable from any source of available funds of the City, subject to the provisions of Section 6.3. The City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of this Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. The foregoing covenant of the City contained constitutes a duty imposed by law and each and every public official of the City is required to take all actions 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 agreed to be carried out and performed by the City.

SECTION 4.5. *Additional Rental Payments.* In addition to the Lease Payments, the City shall pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority hereunder:

- (a) All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;
- (b) All reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;
- (c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Lease or the Indenture;
- (d) Amounts coming due and payable as Excess Investment Earnings in accordance with Section 7.6(e); and
- (e) The reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of this Lease or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving this Lease, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of this Lease.

SECTION 4.6. *Quiet Enjoyment.* Throughout the Term of this Lease, the Authority shall provide the City with quiet use and enjoyment of the Leased Property and the City will peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Authority, except as expressly set forth in this Lease. The Authority 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 Authority may lawfully do so. Notwithstanding the foregoing, the Authority has the right to inspect the Leased Property as provided in Section 7.2.

SECTION 4.7. *Title.* Upon the termination of this Lease (other than under Section 8.2(b) hereof), all right, title and interest of the Authority in and to the Leased Property transfers to and vests in the City. The Authority shall take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

## **ARTICLE V**

### **MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS**

SECTION 5.1. *Maintenance, Utilities, Taxes and Assessments.* Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will 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 will 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 sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property. The City waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the City under the terms of this Lease.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective 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 pay only such installments as are required to be paid during the Term of this Lease as and when the same become due.

The City may, at its 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 Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property 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 Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

SECTION 5.2. *Modification of Leased Property.* The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease. Such additions, modifications and

improvements may not in any way damage the Leased Property, or cause the Leased Property 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 under this Section, must be of a value which is not substantially less than the value thereof 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 under this Section; except that if any such lien is established and the City first notifies or causes to be notified the Authority 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 Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

SECTION 5.3. *Liability and Property Damage Insurance.* The City shall maintain or cause to be maintained throughout the Term of this Lease, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. 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. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. 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 self-insurance by the City, subject to the provisions of Section 5.7, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

SECTION 5.4. *Casualty Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance must, 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, and must include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. 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 agency 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 must be applied as provided in Section 6.1.

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, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements 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 such Lease Payments coming due and payable during any consecutive two Fiscal Years. 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 agency 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, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

SECTION 5.6. *Recordation Hereof; Title Insurance.* On or before the Closing Date the City shall, at its expense, (a) cause the Site Lease, the Assignment Agreement and this Lease, or a memorandum hereof or thereof in form and substance approved by Bond Counsel, to be recorded in the office of the Sacramento County Recorder, and (b) obtain a CLTA title insurance policy insuring the City's leasehold estate hereunder in the Leased Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy must be deposited with the Trustee in the Bond Fund to be credited towards the prepayment of the remaining Lease Payments under Section 9.4.

SECTION 5.7. *Insurance Net Proceeds; Form of Policies.* Each policy of insurance maintained under Sections 5.4, 5.5 and 5.6 must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a certificate of the City stating that all policies of insurance required hereunder are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any insurance maintained under Section 5.3 is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

SECTION 5.8. *Installation of City's Personal Property.* 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 Authority nor the Trustee has any interest, and may be modified or removed by the City at any time, provided that the City must repair all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease prevents the City from purchasing or leasing items to be installed under 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, so long as no such lien or security interest attaches to any part of the Leased Property.

SECTION 5.9. *Liens.* The City may 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 as herein contemplated and except for such encumbrances as the City certifies in writing to the Trustee do not materially and adversely affect the leasehold estate of the City in the Leased Property hereunder. If any such mortgage, pledge, lien, charge, encumbrance or claim does materially and adversely affect the leasehold estate of the City in the Leased Property hereunder, the City will 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; provided that the City is not required to do so prior to the time when such mortgage, pledge, lien, charge, encumbrance or claim actually causes such material adverse effect. The City will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

SECTION 5.10. *Advances.* If the City fails to perform any of its obligations under this Article V, the Authority may (but is not required to) take such action as it deems necessary to cure such failure, including the advancement of money, and the City shall repay all such advances as Additional Rental Payments hereunder, with interest at the rate set forth in Section 4.3(c).

## **ARTICLE VI**

### **DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS**

SECTION 6.1. *Application of Net Proceeds.* The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied as set forth in Section 5.07 of the Indenture.

SECTION 6.2. *Termination or Abatement Due to Eminent Domain.*

(a) 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 this Lease thereupon ceases as of the day possession is taken.

(b) If less than all of the Leased Property is taken permanently and the remainder is useable for the City's purposes, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

- (i) this Lease continues in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary, and
- (ii) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

SECTION 6.3. *Abatement Due to Damage or Destruction.* The Lease Payments are subject to abatement 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 or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will 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 continues in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction.

## **ARTICLE VII**

### **OTHER COVENANTS OF THE CITY**

SECTION 7.1. *Disclaimer of Warranties.* THE AUTHORITY MAKES NO AGREEMENT, 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 PORTION THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. The Authority has no liability for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease for the existence, furnishing, functioning or use of the Leased Property by the City.

SECTION 7.2. *Access to the Leased Property.* The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, have the right at all reasonable times to enter upon and to examine and inspect the Leased Property or any part thereof. The City further agrees that the Authority, any Board Representative and the Authority's successors or assigns may have such rights of access to the Leased Property or any component thereof as reasonably necessary to cause the proper maintenance of the Leased Property if the

City fails to perform its obligations hereunder; *provided, however*, that neither the Authority nor any of its assigns has any obligation to cause such proper maintenance.

SECTION 7.3. *Release and Indemnification Covenants.* The City agrees to indemnify the Authority, the Trustee and their respective officers, agents, successors and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of any of the following:

- (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City,
- (b) any breach or default on the part of the City in the performance of any of its obligations under this Lease,
- (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property,
- (d) any intentional misconduct or negligence of any sublessee of the City with respect to the Leased Property,
- (e) the acquisition, construction, improvement and equipping of the Leased Property, or the authorization of payment of the costs thereof, or
- (f) the acceptance and performance of the duties of the Trustee under the Indenture and under this Lease.

No indemnification is made under this Section or elsewhere in this Lease for willful misconduct or negligence under this Lease by the Authority, the Trustee or their respective officers, agents, employees, successors or assigns.

SECTION 7.4. *Assignment and Subleasing by the City.* This Lease may not be assigned by the City, other than to an entity which succeeds to the interests of the City as a municipal corporation. The City may sublease the Leased Property, or any portion thereof, subject to all of the following conditions:

- (a) This Lease and the obligation of the City to make Lease Payments hereunder must remain obligations of the City.
- (b) The City must, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease.
- (c) No such sublease by the City may cause the Leased Property to be used for a purpose which is not authorized under the provisions of the laws of the State of California.
- (d) The City must furnish to the Authority and the Trustee a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payments to become included in gross income for purposes of federal income taxation or

to become subject to personal income taxation by the State of California.

SECTION 7.5. *Amendment Hereof.* The Authority and the City may at any time amend or modify any of the provisions of this Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Lease in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property under Sections 3.3 or 3.4;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds (other than the Bonds or Additional Bonds), notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee an M.A.I. appraisal showing that the appraised value of the Leased Property is at least equal to the then outstanding principal amount of the Bonds and all such other bonds, notes or other obligations related to the Lease, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds;
- (vi) to incorporate provisions securing the obligations of the City under any Qualified Reserve Account Credit Instrument, or to incorporate provisions for the security of the Bonds relating to a Qualified Reserve Account Credit Instrument;
- (vii) in any respect whatsoever as the Authority and the City deem necessary or desirable to facilitate the issuance of Additional Bonds as permitted under the Indenture; or

- (viii) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

No such modification or amendment may (a) extend or have the effect of extending any Lease Payment Date or reducing any Lease Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

#### SECTION 7.6. *Tax Covenants.*

(a) Private Business Use Limitation. The City shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The City shall calculate or cause to be calculated the Excess Investment Earnings in all respects at the times and in the manner required under the Tax Code. The City shall pay the full amount of Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code. Such payments shall be made by the City from any source of legally available funds of the City, and shall constitute Additional Rental Payments hereunder.

The City shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e). In order to provide for the administration of this subsection (e), the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate. The Trustee has no duty or obligation to monitor or enforce compliance by the City of any of the requirements under this subsection (e).



SECTION 7.7. *Continuing Disclosure.* The City shall comply with and carry out all of the provisions of the 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 will not constitute an Event of Default, although any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds 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.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1. *Events of Default Defined.* Any one or more of the following events constitute an Event of Default hereunder:

- (a) Failure by the City to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.
- (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 the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

SECTION 8.2. *Remedies on Default.* Whenever any Event of Default has happened and is continuing, the Authority may exercise any and all remedies available under law or granted under this Lease. Notwithstanding anything herein or in the Indenture to the contrary, neither the Authority nor the Trustee may accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each covenant hereof to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights granted hereunder; except that no termination of this Lease may be effected either by operation of law or acts of the parties hereto, except only in

the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies, subject in all respects to the limitations set forth in Section 8.3.

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate this Lease 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 Authority for any deficiency arising out of the re-leasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease, 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 Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority. The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place the Leased Property in storage or other suitable place in the County of Sacramento for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Authority 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 the Leased Property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of this Lease 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 shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph, and the City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.
- (b) Termination of Lease. If an Event of Default occurs and is continuing hereunder, the Authority at its option may terminate this Lease and re-lease all or any portion of the Leased Property. If the Authority terminates this Lease at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased

Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Authority 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 and Additional Rental Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Bond Fund. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease. 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 shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

- (c) Proceedings at Law or In Equity. If an Event of Default occurs and continues hereunder, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

SECTION 8.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy is cumulative and in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default impairs any such right or power or operates as 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 Authority to exercise any remedy reserved to it in this Article VIII it is not necessary to give any notice, other than as expressly required in this Article VIII or by law.

SECTION 8.4. *Agreement to Pay Attorneys' Fees and Expenses.* If the Authority or the City defaults under any of the provisions of this Lease and the nondefaulting party employs attorneys or incurs 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 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 8.5. *No Additional Waiver Implied by One Waiver.* If the Authority or the City breaches any agreement in this Lease and thereafter the other party waives the breach, such waiver is limited to the particular Breach so waived and does not operate to waive any other breach hereunder.

SECTION 8.6. *Application of Proceeds.* All net proceeds received from the re-lease of the Leased Property under this Article VIII, and all other amounts derived by the Authority or the Trustee as a result of the occurrence of an Event of Default, must be paid to and applied by the Trustee in accordance with Section 7.03 of the Indenture.

SECTION 8.7. *Trustee and Bond Owners to Exercise Rights.* Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Assignment Agreement for the benefit of the Bond Owners, to which assignment the City hereby consents. The Trustee and the Bond Owners shall exercise such rights and remedies in accordance with the Indenture.

## ARTICLE IX

### PREPAYMENT OF LEASE PAYMENTS

SECTION 9.1. *Security Deposit.* Notwithstanding any other provision of this Lease, the City may on any date secure the payment of the Lease Payments allocable to the Leased Property in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts on deposit in the funds and accounts established under the Indenture, is either:

- (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Appendix B, or
- (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under Section 4.3(a), as the City instructs at the time of said deposit.

If the City makes a security deposit under this Section with respect to all unpaid Lease Payments, and notwithstanding the provisions of Section 4.2, (a) the Term of this Lease will continue, (b) all obligations of the City under this Lease, and all security provided by this Lease for said Lease Payments, will thereupon cease and terminate, excepting only the obligation of the City to make, or cause to be made all of said Lease Payments from such security deposit, and (c) under Section 4.7, title to the Leased Property will vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of this Lease.

SECTION 9.2. *Prepayment.* The City has the option to prepay the principal components of the Lease Payments in as described under Section 4.01(a) of the Indenture. Such prepayment price shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds under Section 4.01(a) of the Indenture. The City shall give written notice to the Authority and the Trustee of its intention to prepay the Lease Payments under this Section at least 45 days prior to the prepayment date, or such shorter period of time as may be acceptable to the Trustee in its sole discretion, such notice being solely for the convenience of the Trustee. Additionally, this Lease is subject to extraordinary mandatory prepayment as described under Section 4.01(c) of the Indenture.

SECTION 9.3. *Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain.* The City shall prepay the principal components of the Lease Payments allocable to the Leased Property in whole or in part on any date, from and to the extent of any Net Proceeds of insurance award or eminent domain award with respect to the Leased Property theretofore deposited in the Redemption Fund for that purpose under Article VI hereof and Section 5.07 of the Indenture. Such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, will be credited towards the City's obligations under this Section and applied to the corresponding redemption of Bonds under Section 4.01 of the Indenture on the next available redemption date.

SECTION 9.4. *Credit for Amounts on Deposit.* If the principal components of the Lease Payments are prepaid in full under this Article IX, such that the Indenture is discharged by its terms as a result of such prepayment, at the written election of the City filed with the Trustee any or all amounts then on deposit in the Bond Fund (and the accounts therein) will be credited towards the amounts then required to be so prepaid.

## ARTICLE X

### MISCELLANEOUS

SECTION 10.1. *Notices.* Any notice, request, complaint, demand or other communication under this Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by facsimile transmission or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, (b) 48 hours after deposit in the United States of America first class mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the Authority or the City:* City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758  
Attention: Finance  
Fax: 916-691-2001

*If to the Trustee:* U.S. Bank National Association  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, Washington 98101  
Attention: Corporate Trust Services  
Fax: (206) 344-4630

SECTION 10.2. *Binding Effect.* This Lease inures to the benefit of and binds the Authority, the City and their respective successors and assigns.

SECTION 10.3. *Severability.* If any provision of this Lease is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

SECTION 10.4. *Net-net-net Lease.* This Lease is deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Lease Payments are an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 10.5. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary.

SECTION 10.6. *Further Assurances and Corrective Instruments.* The Authority and the City shall, 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.

SECTION 10.7. *Execution in Counterparts.* This Lease may be executed in several counterparts, each of which is an original and all of which constitute but one and the same instrument.

SECTION 10.8. *Applicable Law.* This Lease is governed by and construed in accordance with the laws of the State of California.

SECTION 10.9. *Board and City Representatives.* Whenever under the provisions of this Lease the approval of the Authority or the City is required, or the Authority 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 Authority and for the City by an Authorized Representative thereof, and any party hereto may conclusively rely upon any such approval or request.

SECTION 10.10. *Captions.* The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease.

IN WITNESS WHEREOF, the Authority and the City have caused this Lease to be executed in their respective names by their duly authorized officers, all as of the date first above written.

**ELK GROVE FINANCE AUTHORITY,**  
*as lessor*

By \_\_\_\_\_  
Authorized Official

Attest:

\_\_\_\_\_  
Secretary

Approved as to Form:

\_\_\_\_\_  
General Counsel

**CITY OF ELK GROVE, as lessee**

By \_\_\_\_\_  
Authorized Official

Attest:

\_\_\_\_\_  
City Clerk

Approved as to Form:

\_\_\_\_\_  
City Attorney

## APPENDIX A

### DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, State of California, which is more particularly described as follows:

#### **Tract One:**

All of Parcel A as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20000418/1128, Official Records of Sacramento County, together with all that portion of Parcel 1 as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20010808/1248, Official Records of Sacramento County, described as follows:

Beginning at the Northwest corner of said Parcel A; thence from said point of beginning, along the Northerly and Easterly lines of said Parcel A the following six (6) courses: (1) North 72 deg. 12' 39" East 145.99 feet; (2) along the arc of a curve to the right, concave Southerly, having a radius of 500.00 feet, subtended by a chord bearing North 81 deg. 10' 04" East 155.68 feet; (3) South 89 deg. 52' 33" East 67.51 feet; (4) South 00 deg. 53' 37" East 98.32 feet; (5) South 12 deg. 16' 04" West 118.63 feet and (6) South 08 deg. 30' 52" West 76.02 feet to the Northwest corner of said Parcel 1; thence along the Northerly and Easterly lines of said Parcel 1 the following four (4) courses: (1) South 89 deg. 56' 31" East 234.51 feet; (2) South 34 deg. 52' 30" East 71.50 feet; (3) south 67 deg. 50' 31" West 6.88 feet and (4) South 89 deg. 54' 04" West 63.76 feet; thence leaving said Easterly line South 89 deg. 54' 04" West 212.96 feet to a point in the Easterly line of the aforementioned Parcel A; thence along the Easterly and Southerly and Westerly lines of said Parcel A the following four (4) courses: (1) South 07 deg. 04' 19" West 5.06 feet; (2) South 00 deg. 37' 56" East 66.94 feet; (3) South 43 deg. 06' 56" West 75.68 feet and (4) along the arc of a curve to the right, concave Northeasterly, having a radius of 1000.00 feet, subtended by a chord bearing North 32 deg. 58' 24" West 488.99 feet to the point of beginning. Shown as Parcel 1 on Lot Line Adjustment recorded March 18, 2002 in Book 20020318, Page 378 of Official Records.

APN: 116-0860-047-0000

#### **Tract Two:**

All that portion of Parcels 2, 3,4 and 5 as shown on that certain Parcel Map filed in Book 141 of Parcel Maps, Page 8, together with all that portion of Lot 13 as shown on the plat of Laguna Palms Office Park filed in Book 219 of Maps, Map No. 2, Official Records of Sacramento County, described as follows:

Beginning at the intersection of the centerline of Laguna Palms Way and Studio Court as shown on said plat; thence from said point of beginning, along the centerline of said Studio Court South 22° 09' 29" East, 211.29 feet; thence leaving said centerline along the Northerly line of the adjusted lot line as shown within that certain Document filed in Book 98-0001137, Official Records of Sacramento County, and the Easterly prolongation thereof South 67° 50' 31" West, 226.00 feet to a point in the Easterly line



of said Parcel 3; thence along the Easterly line of said Parcels 3, 4 and 5 the following two (2) courses: (1) South 22° 09' 29" East, 15.00 feet and (2) South 28° 06' 55" East, 120.65 feet; thence leaving said Easterly line South 67° 50' 31" West, 33.85 feet; thence North 34° 52' 30" West, 71.50 feet; thence North 89° 56' 31" West, 234.51 feet; thence North 08° 30' 52" East, 76.02 feet; thence North 12° 16' 04" East, 118.63 feet; thence North 00° 53' 37" West, 98.32 feet to a point in the aforementioned centerline of said Laguna Palms Way; thence along said centerline the following three (3) courses: (1) South 89° 52' 33" East, 68.41 feet; (2) along the arc of a curve to the left, concave Northerly, having a radius of 500.00 feet, subtended by a chord bearing North 80° 05' 46" East, 174.13 feet and (3) North 70° 04' 05" East, 105.28 feet to the point of beginning. Said land is shown as Parcel "B" on that certain Lot Line Adjustment Resolution No. 00-BLS-0051, recorded April 18, 2000 in Book 20000418 of Official Records, at Page 1128.

APN: 116-0860-029-0000

**Tract Three:**

Parcels 5 and 6, as shown on that certain Parcel Map filed in the Office of the Recorder of the County of Sacramento, State of California on September 6, 2002, in Book 167 of Parcel Maps at Page 24.

Also shown as Resultant Lot 1, on Boundary Line Adjustment recorded March 09, 2004 in Book 20040309 Page 1707, of Official Records

APN: 116-0860-048-0000

(End of Legal Description)

## APPENDIX B

### SCHEDULE OF LEASE PAYMENTS

Lease Payment Date*	Principal Component	Interest Component	Aggregate Lease Payment	Annual Aggregate Lease Payment**
11/01/18				
05/01/19				
11/01/19				
05/01/20				
11/01/20				
05/01/21				
11/01/21				
05/01/22				
11/01/22				
05/01/23				
11/01/23				
05/01/24				
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05/01/35				
11/01/35				
05/01/36				
11/01/36				
05/01/37				
11/01/37				
05/01/38				
11/01/38				
05/01/39				
11/01/39				
05/01/40				
Total	\$ _____			

---

\* Lease Payment Dates are the 5<sup>th</sup> Business Day immediately preceding each date listed in the schedule



**EXHIBIT C**

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: David T. Fama, Esq.

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

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**ASSIGNMENT AGREEMENT**

This ASSIGNMENT AGREEMENT (this "Agreement"), dated for convenience as of \_\_\_\_\_ 1, 2018, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), 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").

**BACKGROUND:**

1. The City is proceeding to acquire land for public uses and improvements, including construction of a park and animal shelter and related facilities, and the acquisition of furnishings and equipment related to such facilities and incidental expenses related thereto (collectively, the "Project").

2. In order to provide funds to finance a portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (collectively, the "Leased Property," as further described in Exhibit A hereto and subject to substitution and release as provided in the Lease Agreement described below), to the Authority under a Site Lease dated as of \_\_\_\_\_ 1, 2018 (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") under an Indenture of Trust dated as of \_\_\_\_\_ 1, 2018 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter

5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under the Lease Agreement dated as of \_\_\_\_\_ 1, 2018 (the "Lease Agreement"), which has been recorded concurrently herewith, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The Authority has requested the Trustee to enter into this Agreement for the purpose of assigning certain of its rights under the Lease to the Trustee for the benefit of the Bond owners.

#### A G R E E M E N T :

In consideration of the material covenants contained in this Agreement, the parties hereto hereby formally covenant, agree and bind themselves as follows:

SECTION 1. *Defined Terms.* All capitalized terms not otherwise defined herein have the respective meanings given those terms in the Indenture.

SECTION 2. *Assignment.* The Authority hereby assigns to the Trustee, for the benefit of the Owners of all Bonds which are issued and Outstanding under the Indenture, all of the Authority's rights under the Lease (excepting only the Authority's rights under Sections 4.5, 5.10, 7.3 and 8.4 of the Lease), including but not limited to:

- (a) the right to receive and collect all of the Lease Payments from the City under the Lease,
- (b) 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
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under Section 5.07 of the Indenture, or (ii) otherwise to protect the interests of the Bond Owners in the event of a default by the City under the Lease.

The Trustee shall administer all of the rights assigned to it by the Authority under this Agreement in accordance with the provisions of the Indenture, for the benefit of the Owners of Bonds. The assignment made under this Section 2 is absolute and irrevocable, and without recourse to the Authority.

SECTION 3. *Acceptance.* The Trustee hereby accepts the assignments made herein for the purpose of securing the payments due under the Lease and Indenture to, and the rights under the Lease and Indenture of, the Owners of the Bonds, all subject to the provisions of the Indenture. The recitals contained herein are those of the Authority and not of the Trustee, and the Trustee assumes no responsibility for the correctness thereof.

SECTION 4. *Conditions.* This Agreement confers no rights and imposes no duties upon the Trustee beyond those expressly provided in the Indenture. The assignment hereunder to the Trustee is solely in its capacity as Trustee under the Indenture.

SECTION 5. *Execution in Counterparts.* This Agreement may be executed in any number of counterparts, each of which is an original and all together constitute one and the same agreement. Separate counterparts of this Agreement may be separately executed by the Trustee and the Authority, both with the same force and effect as though the same counterpart had been executed by the Trustee and the Authority.

SECTION 6. *Binding Effect.* This Agreement inures to the benefit of and binds the Authority and the Trustee, and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 7. *Governing Law.* This Agreement is governed by the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officers as of the day and year first written above.

**ELK GROVE FINANCE AUTHORITY,**  
*as lessor*

By \_\_\_\_\_  
Authorized Official

Attest:

\_\_\_\_\_  
Secretary

Approved as to Form:

\_\_\_\_\_  
General Counsel

**CITY OF ELK GROVE, as lessee**

By \_\_\_\_\_  
Authorized Official

Attest:

\_\_\_\_\_  
City Clerk

Approved as to Form:

\_\_\_\_\_  
City Attorney



## APPENDIX A

### DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, State of California, which is more particularly described as follows:

#### **Tract One:**

All of Parcel A as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20000418/1128, Official Records of Sacramento County, together with all that portion of Parcel 1 as shown and described within that certain Certificate of Compliance for Lot Line Adjustment filed as Series No. 20010808/1248, Official Records of Sacramento County, described as follows:

Beginning at the Northwest corner of said Parcel A; thence from said point of beginning, along the Northerly and Easterly lines of said Parcel A the following six (6) courses: (1) North 72 deg. 12' 39" East 145.99 feet; (2) along the arc of a curve to the right, concave Southerly, having a radius of 500.00 feet, subtended by a chord bearing North 81 deg. 10' 04" East 155.68 feet; (3) South 89 deg. 52' 33" East 67.51 feet; (4) South 00 deg. 53' 37" East 98.32 feet; (5) South 12 deg. 16' 04" West 118.63 feet and (6) South 08 deg. 30' 52" West 76.02 feet to the Northwest corner of said Parcel 1; thence along the Northerly and Easterly lines of said Parcel 1 the following four (4) courses: (1) South 89 deg. 56' 31" East 234.51 feet; (2) South 34 deg. 52' 30" East 71.50 feet; (3) south 67 deg. 50' 31" West 6.88 feet and (4) South 89 deg. 54' 04" West 63.76 feet; thence leaving said Easterly line South 89 deg. 54' 04" West 212.96 feet to a point in the Easterly line of the aforementioned Parcel A; thence along the Easterly and Southerly and Westerly lines of said Parcel A the following four (4) courses: (1) South 07 deg. 04' 19" West 5.06 feet; (2) South 00 deg. 37' 56" East 66.94 feet; (3) South 43 deg. 06' 56" West 75.68 feet and (4) along the arc of a curve to the right, concave Northeasterly, having a radius of 1000.00 feet, subtended by a chord bearing North 32 deg. 58' 24" West 488.99 feet to the point of beginning. Shown as Parcel 1 on Lot Line Adjustment recorded March 18, 2002 in Book 20020318, Page 378 of Official Records.

APN: 116-0860-047-0000

#### **Tract Two:**

All that portion of Parcels 2, 3,4 and 5 as shown on that certain Parcel Map filed in Book 141 of Parcel Maps, Page 8, together with all that portion of Lot 13 as shown on the plat of Laguna Palms Office Park filed in Book 219 of Maps, Map No. 2, Official Records of Sacramento County, described as follows:

Beginning at the intersection of the centerline of Laguna Palms Way and Studio Court as shown on said plat; thence from said point of beginning, along the centerline of said Studio Court South 22° 09' 29" East, 211.29 feet; thence leaving said centerline along the Northerly line of the adjusted lot line as shown within that certain Document filed in Book 98-0001137, Official Records of Sacramento County, and the Easterly prolongation thereof South 67° 50' 31" West, 226.00 feet to a point in the Easterly line

of said Parcel 3; thence along the Easterly line of said Parcels 3, 4 and 5 the following two (2) courses: (1) South 22° 09' 29" East, 15.00 feet and (2) South 28° 06' 55" East, 120.65 feet; thence leaving said Easterly line South 67° 50' 31" West, 33.85 feet; thence North 34° 52' 30" West, 71.50 feet; thence North 89° 56' 31" West, 234.51 feet; thence North 08° 30' 52" East, 76.02 feet; thence North 12° 16' 04" East, 118.63 feet; thence North 00° 53' 37" West, 98.32 feet to a point in the aforementioned centerline of said Laguna Palms Way; thence along said centerline the following three (3) courses: (1) South 89° 52' 33" East, 68.41 feet; (2) along the arc of a curve to the left, concave Northerly, having a radius of 500.00 feet, subtended by a chord bearing North 80° 05' 46" East, 174.13 feet and (3) North 70° 04' 05" East, 105.28 feet to the point of beginning. Said land is shown as Parcel "B" on that certain Lot Line Adjustment Resolution No. 00-BLS-0051, recorded April 18, 2000 in Book 20000418 of Official Records, at Page 1128.

APN: 116-0860-029-0000

**Tract Three:**

Parcels 5 and 6, as shown on that certain Parcel Map filed in the Office of the Recorder of the County of Sacramento, State of California on September 6, 2002, in Book 167 of Parcel Maps at Page 24.

Also shown as Resultant Lot 1, on Boundary Line Adjustment recorded March 09, 2004 in Book 20040309 Page 1707, of Official Records

APN: 116-0860-048-0000

(End of Legal Description)

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**INDENTURE OF TRUST**

Dated as of \_\_\_\_\_ 1, 2018

between

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

and the

**ELK GROVE FINANCE AUTHORITY**

*Authorizing the Issuance of*

**\$ \_\_\_\_\_**  
**Elk Grove Finance Authority**  
**2018 Lease Revenue Bonds**  
**(Capital Facilities)**

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## INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated for convenience as of \_\_\_\_\_ 1, 2018, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Seattle, Washington, being qualified to accept and administer the trusts hereby created (the "Trustee").

### BACKGROUND:

1. The City of Elk Grove (the "City") is proceeding to acquire land for public uses and improvements, including construction of a park and animal shelter and related facilities, and the acquisition of furnishings and equipment related to such facilities and incidental expenses related thereto (collectively, the "Project").

2. In order to provide funds to finance a portion of the costs of the Project, the City has agreed to lease the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (collectively, the "Leased Property," as further described in Exhibit A hereto and subject to substitution and release as provided in the Lease (defined below)), to the Authority under a Site Lease dated as of \_\_\_\_\_ 1, 2018 (the "Site Lease"), under which the Authority agrees to make an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") under this Indenture and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of \_\_\_\_\_ 1, 2018 (the "Lease"), under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as assignor and the Trustee as assignee.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued

and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

7. The Authority has found and determines, and hereby affirms, that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

#### **A G R E E M E N T :**

In order to secure the payment of the principal of and the interest and redemption premium (if any) on all the Outstanding Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

### **ARTICLE I**

#### **DEFINITIONS; RULES OF CONSTRUCTION**

SECTION 1.01. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in that Appendix when used in this Indenture.

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 Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.



(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

## ARTICLE II

### THE BONDS

SECTION 2.01. *Authorization of Bonds.* The Authority has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The Authority hereby authorizes the issuance of Bonds in the aggregate principal amount of \$\_\_\_\_\_ under the Bond Law for the purposes of providing funds to pay the Site Lease Payment to the City and thereby provide funds to finance the Project. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated as the "Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities)."

#### SECTION 2.02. *Terms of the Bonds.*

(a) Payment Provisions. The Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds shall mature on November 1 in each of the years and in the amounts, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

Maturity Date	Principal	Interest
<u>(November 1)</u>	<u>Amount</u>	<u>Rate</u>

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

#### SECTION 2.03. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond 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 a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect from the transferee any tax or other governmental charge on the transfer of any Bonds under this Section 2.03. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect from the transferee any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section 2.03, any Bonds selected by the Trustee for redemption under Article IV, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

#### SECTION 2.04. *Book-Entry System.*

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the Authority and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the Authority and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the Authority elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the Authority to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the Authority of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new

nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Authority shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the Authority may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the Authority determines to terminate the Depository as such, then the Authority shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Authority and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Authority fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the Authority determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Authority may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the Authority shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the Authority's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Registration Books.* The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; 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 such records, the ownership of the Bonds as hereinbefore provided.

SECTION 2.06. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The President of the Authority or other Authorized Representative with authority to do so shall execute, and the Secretary of the Authority shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of the execution of such Bond are the proper officers of the Authority, duly authorized to execute debt instruments on behalf of the Authority, although on the date of such Bond any such person was not an officer of the Authority.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.07. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond is mutilated, the Authority, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.07, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

**SECTION 2.08. *Additional Bonds.*** In addition to the Bonds authorized to be issued pursuant to Section 2.01 of this Indenture, the Authority may, by Supplemental Indenture, establish one or more other issues of Additional Bonds secured and payable on a parity with such Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of this Section 2.08 and Section 2.09, and subject to the following specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) Such Additional Bonds shall have been authorized to finance additional capital improvements for the City, or to refund bonds previously issued to finance such capital improvements, and the issuance thereof shall have been determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.

(b) The Authority and the City shall be in compliance with all covenants and undertakings set forth in this Indenture and in the Lease and the Site Lease.

(c) The aggregate principal amount of Bonds issued and at any time Outstanding hereunder shall not exceed any limit imposed by law, by this Indenture or by any Supplemental Indenture.

(d) Such Additional Bonds shall be equally and ratably secured by the Revenues with all other Bonds herein authorized.

(f) The Authority shall have entered into an amendment to the Lease, in and by which the City obligates itself in the manner provided in the Lease to make Lease Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City shall certify in writing, that such Lease Payments, as amended, in any year shall not exceed the then fair rental value of the Leased Property.

(g) If necessary to ensure that the Lease Payments payable after the issuance of Additional Bonds does not exceed the fair rental value of the Leased Property in any year, the Authority and the City shall have amended the Lease pursuant to Section 7.5 thereof to add additional property to the Leased Property.

(h) In the event that the Additional Bonds are being issued to finance the construction of a to-be-built project, and such project is to be part of the Leased Property prior to its completion, the Supplemental Indenture authorizing the issuance of such Additional Bonds shall require the deposit into a capitalized interest account in the Project Fund, or a subaccount therein, an

amount sufficient to pay interest on such Additional Bonds through a date which is not less than six months after the anticipated completion date of the project, but only if such Additional Bonds are issued prior to the substantial completion of such project.

*SECTION 2.09. Proceedings for the Issuance of Additional Bonds.* Whenever the Authority shall have determined to issue Additional Bonds pursuant to Section 2.08, the Authority shall enter into a Supplemental Indenture determining that the issuance of such Additional Bonds is necessary for the purposes specified in Section 2.08, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof. Before such Additional Bonds shall be issued and delivered, the Authority shall file the following documents with the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing such Additional Bonds, together with a certified copy of the resolution of the Authority authorizing the issuance of such Additional Bonds and the execution of such Supplemental Indenture.

(b) An Opinion of Bond Counsel stating: (i) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (ii) that the issuance of the Additional Bonds is authorized by the Bond Law and this Indenture; (iii) that the Additional Bonds when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of this Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (iv) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; and (v) if the Additional Bonds are to be tax-exempt, that the interest on the Additional Bonds will be excluded from the gross income of the Owners thereof for federal income tax purposes.

(c) A Certificate of the Authority certifying that the requirements set forth in Section 2.08 have been either met or provided for, together with a copy of the amendment to the Lease required by Section 2.08, together with a certified copy of the resolutions of the Authority and the City authorizing the execution of such amendment to the Lease.

*SECTION 2.09. Applicability to Additional Bonds.* Unless otherwise specified in the Supplemental Indenture pursuant to which an issue of Additional Bonds are issued, the provisions of Sections 2.04 through 2.07 shall apply to such issue of Additional Bonds.

## ARTICLE III

### ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. *Issuance of the Bonds.* At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon the Written Request of the Authority, deliver the Bonds to the Original Purchaser.

SECTION 3.02. *Application of Proceeds of Sale of Bonds and City Contribution.* Upon the receipt of payment for the Bonds on the Closing Date in the amount of \$\_\_\_\_\_ (representing the aggregate principal amount thereof, less an Underwriter's discount of \$\_\_\_\_\_) and receipt of the contribution of the City in the amount of \$\_\_\_\_\_, the Trustee shall deposit the proceeds thereof into a temporary account, which shall be disbursed in full on the Closing Date (whereupon said temporary account shall be closed) as follows:

- (a) The Trustee shall deposit the amount of \$\_\_\_\_\_ into the Costs of Issuance Fund.
- (b) [[The Trustee shall deposit the amount of \$\_\_\_\_\_ into the Interest Account of the Bond Fund, constituting capitalized interest on the Bonds.]]
- (c) The Trustee shall deposit the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds and representing the full amount of the Site Lease Payment, in the Project Fund.

SECTION 3.03. *Establishment and Application of Costs of Issuance Fund.* The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under Section 3.02(d). The Trustee shall disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon. On \_\_\_\_\_ 1, 2018, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Project Fund and shall thereupon close the Costs of Issuance Fund.

SECTION 3.04. *Establishment and Application of Project Fund .* There is hereby established in trust a special fund designated the "Project Fund" which will be held by the Trustee and which will be kept separate and apart from all other funds and moneys held by the Trustee into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under Section 3.02(d). The Trustee shall disburse amounts in the Project Fund from time to time to pay the Project Costs upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee



may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon.

Upon the receipt of a Written Certificate of the City stating that the Project has been completed and that no further amounts are required to be disbursed from the Project Fund to pay Project Costs, the Trustee will close the Project Fund and transfer any remaining amounts to the Principal Account of the Bond Fund, to be applied as a credit towards the Lease Payments next coming due and payable.

SECTION 3.05. *Validity of Bonds.* The recital contained in the Bonds that the same are issued under the laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

## ARTICLE IV

### REDEMPTION OF BONDS

#### SECTION 4.01. *Terms of Redemption.*

(a) Optional Redemption. The Bonds maturing on or before November 1, \_\_\_\_\_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after November 1, \_\_\_\_\_, are subject to redemption in whole, or in part at the at the election of the Authority among maturities on such basis as shall be designated by the Authority and by lot within a maturity, at the option of the Authority, on any date on or after November 1, \_\_\_\_\_, from any available source of funds, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium.

The Authority shall give the Trustee written notice of its intention to redeem Bonds under Section 4.01, and the manner of selecting such Bonds for redemption from among the maturities thereof, in sufficient time to enable the Trustee to give notice of such redemption in accordance with Section 4.03.

(b) Mandatory Sinking Fund Redemption. The Term Bonds maturing November 1, \_\_\_\_\_, November 1, \_\_\_\_\_ and November 1, \_\_\_\_\_ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on November 1 in the respective years as set forth in the following table; *provided, however,* that if some but not all of the Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments in integral multiples of \$5,000 as determined by the Authority (as set forth in a schedule provided by the Authority to the Trustee).

**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund  
Redemption Date  
(November 1)

Principal Amount  
To Be Redeemed

**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund  
Redemption Date  
(November 1)

Principal Amount  
To Be Redeemed

**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund  
Redemption Date  
(November 1)

Principal Amount  
To Be Redeemed

(c) Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption prior to maturity in whole or in part among maturities as determined by the Authority, on any date, at a redemption price equal to 100% of the principal amount thereof to be redeemed (plus accrued but unpaid interest to the redemption date), without premium, from Net Proceeds received under Section 5.6 of the Lease Agreement and from amounts deposited in the Insurance and Condemnation Fund pursuant to Section 5.07 hereof, and any other funds available for such purpose under this Indenture.

SECTION 4.02. *Selection of Bonds for Redemption.* Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Bonds shall be selected for redemption on a pro-rata basis among outstanding maturities to the extent permitted by DTC. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

SECTION 4.03. *Notice of Redemption; Rescission.* The Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 20 (or, if required by the Depository, 30) nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

The Authority has the right to rescind any notice of the redemption of Bonds under Section 4.01(a) by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

SECTION 4.04. *Partial Redemption of Bonds.* Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

SECTION 4.05. *Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed under the provisions of this Article shall be canceled by the Trustee upon surrender thereof and destroyed in accordance with the retention policy of the Trustee then in effect.

## ARTICLE V

### REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

#### SECTION 5.01. *Security for the Bonds; Bond Fund.*

(a) Pledge of Revenues and Other Amounts. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under this Indenture are hereby pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of this Indenture. Said pledge constitutes a lien on and security interest in the Revenues and such amounts and shall attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

(b) Assignment to Trustee. Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under Sections 4.5, 5.10, 7.3 and 8.4 thereof). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

(c) Deposit of Revenues in Bond Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such funds. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under Article X, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

SECTION 5.02. *Allocation of Revenues.* On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) Deposit to Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate

amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

- (b) Deposit to Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of Term Bonds (if any) which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

SECTION 5.03. *Application of Interest Account.* All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

SECTION 5.04. *Application of Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, and the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

SECTION 5.05. *Application of Redemption Fund.* The Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under Section 4.01; *provided, however,* that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee shall be entitled to conclusively rely on any Written Request of the Authority received under this Section, and shall be fully protected in relying thereon.

SECTION 5.06. *Insurance and Condemnation Fund.*

(a) Establishment of Fund. Upon the receipt of proceeds of insurance or eminent domain with respect to the Leased Property, the Trustee shall establish and maintain an Insurance and Condemnation Fund, to be held and applied as hereinafter set forth in this Section 5.07.

(b) Deposit of Proceeds. Any Net Proceeds of insurance and eminent domain awards with respect to the Leased Property collected by the City or the Authority in accordance with Article VI of the Lease will be deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund.

(c) Application of Proceeds. Net Proceeds deposited in the Insurance and Condemnation Fund will be used, as directed by the City, either (i) to replace, repair,

restore, modify or improve the Leased Property if the City determines that such is economically feasible or in the best interests of the City, or (ii) to the extent not so used, to prepay the Lease Payments on the next optional prepayment date, and thereby redeem outstanding Bonds pursuant to optional redemption.

Any proceeds of an insurance or eminent domain award deposited in the Insurance and Condemnation Fund to be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, or to replace any Leased Property taken in eminent domain proceedings, shall be applied upon receipt of a Written Request of the City which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund and has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Any balance of the proceeds remaining after such work has been completed as certified by the City under a Written Certificate to the Trustee shall be paid to the City. The Trustee shall be entitled to conclusively rely on any Written Request or Written Certificate received under this subsection (c) of this Section 5.07 and in each case, shall be fully protected in relying thereon.

Notwithstanding the foregoing, however, in the event of condemnation, damage or destruction of the Leased Property in full, the Net Proceeds of such insurance are required to be used by the City to redeem the Bonds in full; except that, if such proceeds and other amounts available under this Indenture are not sufficient to redeem outstanding Bonds in full, the City is required to rebuild or replace the Leased Property.

SECTION 5.07. *Investments.* All moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority in a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments which constitute money market funds. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All amounts in any of the funds or accounts established with the City under this Indenture shall be invested by the City solely in investments which are authorized for the investment of such funds under the applicable laws of the State of California and under the adopted investment policy of the City.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, *provided, however,* that earnings on the investment of the amount in the Project Fund shall be retained therein. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section 5.08.

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. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority a periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Except as otherwise provided hereunder or agreed in writing among the parties hereto, the Authority shall retain the authority to institute, participate and join in any plan or reorganization, readjustment, merger or consolidation with respect to the issuer of any securities held hereunder, and, in general, to exercise each and every other power or right with respect to each such asset or investment as individuals generally have and enjoy with respect to their own assets and investment, including power to vote upon any securities.

Unless the Authority notifies the Trustee otherwise in writing, the Trustee will provide the obligatory information to the registrant/issuer of any U.S. securities upon their request. Any objection will apply to all securities held in any trust account now and in the future unless the Authority notifies the Trustee in writing of such objection.

#### SECTION 5.08. *Valuation and Disposition of Investments.*

(a) Except as otherwise provided in subsection (b) of this Section, the Authority covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Indenture or the Tax Code) at the Fair Market Value thereof as such term is defined in subsection (d) below. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority in any Written Request of the Authority.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at cost thereof, (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the Authority shall inform the Trustee which funds are subject to a yield restriction.

(c) Except for any funds or accounts described in subsection (b), for the purpose of determining the amount in any fund or account established hereunder, the value of Permitted Investments credited to such fund shall be valued by the Trustee at

least annually on or before January 1. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section 5.09, the term "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 Tax 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 Tax 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 Tax Code, (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is any commingled investment fund in which the Authority and related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the applicable regulations under the Tax Code, the term "investment" will include a hedge.

(e) To the extent of any valuations made by the Trustee hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.



## ARTICLE VI

### COVENANTS OF THE AUTHORITY

SECTION 6.01. *Punctual Payment.* The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of the Revenues, and other amounts pledged for such payment as provided in this Indenture.

SECTION 6.02. *Extension of Payment of Bonds.* The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in this Section 6.02 limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

SECTION 6.03. *Against Encumbrances.* The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

SECTION 6.04. *Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized under law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned, respectively, under this Indenture and under the Assignment Agreement in the manner and to the extent provided in this Indenture and the Assignment Agreement. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

SECTION 6.05. *Accounting Records.* The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under this Indenture. The Trustee shall make such books of record and account available for inspection by the Authority and the City, during business hours, upon reasonable notice, and under reasonable circumstances.

SECTION 6.06. *Limitation on Additional Obligations.* The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

SECTION 6.07. *Tax Covenants.*

(a) Private Business Use Limitation. The Authority shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Authority may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The Authority shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The Authority shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from amounts paid by the City for that purpose under Section 4.5(d) of the Lease. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e).

(f) Record Retention. Without limiting the requirements of subsection (e) above, the Authority will retain its records of all accounting and monitoring it carries out with respect to the Bonds for at least 3 years after the Bonds mature or are redeemed (whichever is earlier); however, if the Bonds are redeemed and refunded, the Authority will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Bonds.

(g) Compliance with Tax Certificate. The Authority will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Bonds.

SECTION 6.08. *Enforcement of Lease.* The Trustee shall promptly collect all amounts (to the extent any such amounts are available for collection) due from the City under the Lease. Subject to the provisions of Article VIII, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease.

SECTION 6.09. *Waiver of laws.* The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.10. *Further Assurances.* The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

## **ARTICLE VII**

### **EVENTS OF DEFAULT AND REMEDIES**

SECTION 7.01. *Events of Default.* The following events constitute Events of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; provided, however, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

- (e) The occurrence and continuation of an event of default under and as defined in the Lease.

SECTION 7.02. *Remedies Upon Event of Default.* If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its legal counsel, including the allocated costs of internal attorneys) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.03. *Application of Revenues and Other Funds After Default.* If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee in the following order of priority:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under this Indenture;
- (b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of this Indenture, as follows:

*First:* To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

*Second:* To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

SECTION 7.04. *Trustee to Represent Bond Owners.* The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture and applicable provisions of any law. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. *Limitation on Bond Owners' Right to Sue.* Notwithstanding any other provision hereof, no Owner of any Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Lease or any other applicable law with respect to such Bonds, unless (a) such Owner has given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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 Bonds of any remedy hereunder or under law; it being understood and

intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, this Indenture, the Lease or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.06. *Absolute Obligation of Board.* Nothing herein or in the Bonds contained affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.07. *Termination of Proceedings.* In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

SECTION 7.08. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. *No Waiver of Default.* No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

SECTION 7.10. *Notice to the Bond Owners of Default.* Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall promptly give written notice thereof by first class mail, postage prepaid, to the Owner of each Outstanding Bond, unless such Event of Default has been cured before the giving of such notice; *provided, however* that except in the case of an Event of Default described in Sections 7.01(a) or 7.01(b), the Trustee may elect not to give such notice to the Bond Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

## ARTICLE VIII

### THE TRUSTEE

SECTION 8.01. *Appointment of Trustee.* U.S. Bank National Association is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article VIII so long as any Bonds are Outstanding.

SECTION 8.02. *Acceptance of Trusts; Removal and Resignation of Trustee.* The Trustee hereby accepts the express trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

- (a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture and no implied duties or covenants shall be read into this Indenture against the Trustee.
- (b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and shall remove the Trustee (a) if at any time requested to do so by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (b) if at any time the Trustee ceases to be eligible in accordance with Section 8.02, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. Any such removal shall be made upon at least 30 days' prior written notice to the Trustee.
- (c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books.
- (d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. In the event of the removal or resignation of the Trustee under subsections (b) or (d), respectively, the Authority shall promptly appoint a successor Trustee.

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition any

court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, must signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and after payment by the Authority of all unpaid fees and expenses of the predecessor Trustee, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to the Leased Property held by such predecessor Trustee under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall promptly mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

- (e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, shall be authorized under such laws to exercise corporate trust powers, shall have (or, in the case of a corporation or association that is a member of a bank holding company system, the related bank holding company has) a combined capital and surplus of at least \$50,000,000, and shall be subject to supervision or examination by a federal or state agency, so long as any Bonds are Outstanding. If such corporation or association publishes a report of condition at least annually under law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection (e), the combined capital and surplus of such corporation or association



shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If the Trustee at any time ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.03. *Merger or Consolidation.* Any bank, federal savings association, or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, federal savings association, or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, federal savings association, or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, federal savings association, or trust company shall be eligible under subsection (e) of Section 8.02 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.04. *Liability of Trustee.*

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Bonds or the Lease (including any right to receive moneys thereunder or the value of or title to the premises upon which the Leased Property is located), nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations of Trustee herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as 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 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made by a responsible officer, unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts. Permissive rights of the Trustee shall not be construed as duties.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture or assigned to it under the Assignment Agreement.

(d) The Trustee is not liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or a corporate trust officer shall have received written notice thereof at its Office from the City, the Authority or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements herein, under the Lease or the Bonds or of any of the documents executed in connection with the Bonds, or as to the existence of a default or an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City or the Authority of the terms, conditions, covenants or agreements set forth in the Lease, other than the covenants of the City to make Lease Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(f) No provision of this Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents, receivers or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed with due care by it hereunder.

(h) The Trustee has no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of the Bond Owners under this Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including but not limited to fees and expenses of its attorneys) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of Section 8.02(a), this Section 8.04 and Section 8.05, and shall be applicable to the assignment of any rights under the Lease to the Trustee under the Assignment Agreement.

(j) The Trustee is not accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions hereof.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Leased Property. In no event

shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or this Indenture for the existence, furnishing or use of the Leased Property.

(l) The Trustee has 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 Bonds.

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

SECTION 8.05. *Right to Rely on Documents.* The Trustee shall be protected and shall incur no liability in acting or refraining from acting in reliance upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee is under no duty to make any investigation or inquiry as to any statements contained or matter referred to in any paper or document but may accept and conclusively rely upon the same as conclusive evidence of the truth and accuracy of any such statement or matter and shall be fully protected in relying thereon. The Trustee may consult with counsel, who may be counsel of or to the Authority, 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 and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems 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) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the Authority or the City, and such Written Certificate, Written Request or Written Requisition shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture in reliance upon such Written Certificate, Written Request or Written Requisition, and the Trustee shall be fully protected in relying thereon, 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 deem reasonable.

SECTION 8.06. *Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and in accordance with its retention policy then in effect and shall, upon reasonable notice to Trustee, be subject to the inspection of the Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, during business hours and under reasonable conditions as agreed to by the Trustee.

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any

interest on advances), charges, legal (including outside counsel and the allocated costs of internal attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or under the Assignment Agreement or the Lease. As security for the performance of the obligations of the Authority under this Section 8.07 and the obligation of the Authority to make Additional Rental Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 8.07 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture and the Lease.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liabilities in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

## **ARTICLE IX**

### **MODIFICATION OR AMENDMENT HEREOF**

#### *SECTION 9.01. Amendments Permitted.*

(a) Amendments With Bond Owner Consent. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee. No such modification or amendment may (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) Amendments Without Owner Consent. This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be

modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;
  - (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;
  - (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
  - (iv) to incorporate provisions relating to the issuance of additional bonds; or
  - (v) to modify, amend or supplement this Indenture in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code.
- (c) Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.
- (d) Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture hereunder, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture.
- (e) Notice of Amendments. The Authority shall deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 9.01.

SECTION 9.02. *Effect of Supplemental Indenture.* Upon the execution of any Supplemental Indenture under this Article IX, this Indenture shall be deemed to be

modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding 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 such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. *Endorsement of Bonds; Preparation of New Bonds.* Bonds delivered after the execution of any Supplemental Indenture under this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

SECTION 9.04. *Amendment of Particular Bonds.* The provisions of this Article IX do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

## **ARTICLE X**

### **DEFEASANCE**

SECTION 10.01. *Discharge of Indenture.* Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, 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 10.03) to pay or redeem such Bonds; or
- (c) by delivering all of such Bonds to the Trustee for cancellation.

If the Authority also pays or causes to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding

that any of such Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to Section 10.02. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority 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 to the City all moneys or securities or other property held by it under this Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption. The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption 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 Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners 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 10.04.

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

SECTION 10.03. *Deposit of Money or Securities with Trustee.* Whenever in this Indenture 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 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under this Indenture and shall be:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption 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 Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or
- (b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and

premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above). The Trustee shall be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

SECTION 10.04. *Unclaimed Funds.* Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by this Indenture, 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 Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of Bonds 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 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

## ARTICLE XI

### MISCELLANEOUS

SECTION 11.01. *Liability of Authority Limited to Revenues .* Notwithstanding anything in this Indenture or in the Bonds contained, the Authority is not required to advance any moneys derived from any source other than the Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02. *Limitation of Rights to Parties and Bond Owners.* Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the



Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

SECTION 11.03. *Funds and Accounts.* Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under this Indenture.

SECTION 11.04. *Waiver of Notice; Requirement of Mailed Notice.* Whenever in this Indenture 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 such 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. Whenever in this Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

SECTION 11.05. *Destruction of Bonds.* Whenever in this Indenture provision is made for the cancellation by the Trustee, and the delivery to the Authority, of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and at the written request of the Authority the Trustee shall deliver a certificate of such destruction to the Authority.

SECTION 11.06. *Severability of Invalid Provisions.* If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. *Notices.* All notices or communications to be given under this Indenture shall be given by first class 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 either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by telephone, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority,

the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the Authority or the City:* City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758  
Attention: Finance  
Fax: 916-691-3182

*If to the Trustee:* U.S. Bank National Association  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, Washington 98101  
Attention: Corporate Trust Services  
Fax: (206) 344-4630

SECTION 11.08. *Evidence of Rights of Bond Owners.* Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

SECTION 11.09. *Disqualified Bonds.* In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the

Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, the Trustee shall be entitled to rely upon the advice of counsel in any decision by Trustee and shall be fully protected in relying thereon.

Upon request, the Authority shall specify to the Trustee those Bonds disqualified under this Section 11.09.

SECTION 11.10. *Money Held for Particular Bonds.* The money held by the Trustee for the payment of the interest, premium, if any, or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, *subject, however,* to the provisions of Section 10.04 but without any liability for interest thereon.

SECTION 11.11. *Waiver of Personal Liability.* No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.12. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Indenture either the Authority, 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 Indenture contained by or on behalf of the Authority, 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 11.13. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.14. *Payment on Non-Business Day.* In the event any payment is required to be made hereunder on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and with the same effect as if made on such preceding non-Business Day.

SECTION 11.15. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

**IN WITNESS WHEREOF**, the ELK GROVE FINANCE AUTHORITY has caused this Indenture to be signed in its name by its Administrator and attested to by its Secretary, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**ELK GROVE FINANCE AUTHORITY**

By \_\_\_\_\_  
Authorized Officer

Attest:

\_\_\_\_\_  
Secretary

Approved as to Form:

\_\_\_\_\_  
General Counsel

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

By \_\_\_\_\_  
Authorized Officer

## APPENDIX A

### DEFINITIONS

“Additional Bonds” means Additional Bonds issued in accordance with Section 2.08 hereof.

“Additional Rental Payments” means the amounts of additional rental which are payable by the City under Section 4.5 of the Lease or which are otherwise identified as Additional Rental Payments under the Lease.

“Assignment Agreement” means the Assignment Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended.

“Authority” means the Elk Grove Finance Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of July 13, 2005, by and between the City of Elk Grove and the Parking Authority of the City of Elk Grove, and under the laws of the State of California.

“Authorized Representative” means: (a) with respect to the Authority, its President, Administrator, Chair, Vice Chair, Executive Director, Treasurer, Assistant Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Administrator, Chair, Vice Chair, Executive Director, Treasurer or Assistant Treasurer and filed with the City and the Trustee; and (b) with respect to the City, its City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its City Manager or Finance Director and filed with the Trustee.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under Section 5.01.

“Bond Law” means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bond Year” means each twelve-month period extending from November 2 in one calendar year to November 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including \_\_\_\_\_.

“Bonds” means the \$ \_\_\_\_\_ aggregate principal amount of Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) authorized by and at any time Outstanding under the Bond Law and this Indenture.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the City in which the Office of the Trustee is located.

"City" means the City of Elk Grove, a municipal corporation organized and existing under the laws of the State of California.

"Closing Date" means \_\_\_\_\_, 2018, being the date of delivery of the Bonds to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and their respective counsel, including the Trustee's first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.03.

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under Section 2.04.

"Depository System Participant" means any participant in the Depository's book-entry system.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" means any of the events specified in Section 7.01.

"Excess Investment Earnings" means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield on the Bonds.

"Federal Securities" means: (a) any 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), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

**“Indenture”** means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

**“Independent Accountant”** means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

**“Information Services”** means Financial Information, Inc.’s Financial Daily Called Bond Service; Standard & Poor’s J.J. Kenny Information Services; Moody’s Municipal and Government; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

**“Insurance and Condemnation Fund”** means the fund by that name established and held by the Trustee under Section 5.07.

**“Interest Account”** means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

**“Interest Payment Date”** means each November 1 and May 1, commencing November 1, 2018, so long as any Bonds remain unpaid.

**“Lease”** means the Lease Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as lessor and the City as lessee of the Leased Property, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

**“Lease Payment Date”** means, with respect to any Interest Payment Date, the 5th Business Day immediately preceding such Interest Payment Date.

**“Lease Payments”** means the amounts payable by the City under Section 4.3(a) of the Lease, including any prepayment thereof and including any amounts payable upon a delinquency in the payment thereof.

**“Leased Property”** means the real property described in Appendix A to the Lease, together with all improvements and facilities at any time situated thereon, consisting generally of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building).

**“Moody’s”** means Moody’s Investors Service, its successors and assigns.

**“Net Proceeds”** means amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Property, or the proceeds of any taking of the

Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

"Office" means the corporate trust office of the Trustee in San Francisco, California or Seattle, Washington, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust business is conducted.

"Original Purchaser" means Stifel Nicolaus & Company, Incorporated, as original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding", when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture.

"Owner", whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Permitted Encumbrances" means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease; (b) the Site Lease, the Lease and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Lawyer's Title Company; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

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

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any federal agencies whose obligations are backed by the full faith and credit of the United States of America.



- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by S&P (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (d) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize under federal law, which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1 or better by S&P.
- (e) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee or its affiliates) in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation, including the Bank Insurance Fund and the Savings Association Insurance Fund.
- (f) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated AA or better from S&P, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from S&P falls below AA. For purpose of this clause, the rating category "AA" includes all gradations within such rating category.
- (g) Bonds, notes or other obligations issued by any corporation or public agency, which as of the date of purchase are rated AA or better from S&P. For purpose of this clause, the rating category "AA" includes all gradations within such rating category.
- (h) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

"Principal Account" means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

"Project" means the acquisition, construction, improvement and/or equipping of public capital improvements. The Project is anticipated to consist of: (a) the construction of an animal shelter and acquisition of land, furnishings, equipment and incidental expenses related thereto, and (b) the acquisition of a public park, and acquisition of land, furnishings, equipment and incidental expenses related thereto.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for the purchase of the Project or otherwise relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) preliminary costs of the Project, including but not limited to design, environmental, engineering and architectural services, costs for testing, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and costs for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) costs of equipping and furnishing the Project, and costs of taking occupancy of the Project including costs incurred in connection with the relocation of City functions and personnel into the Project;
- (f) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (g) all financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (h) the Lease Payments coming due during the period of construction of the Project.

"Project Fund" means the fund by that name established and held by the City under Section 3.04.

"Record Date" means, with respect to any Interest Payment Date, the 15<sup>th</sup> calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established and held by the Trustee under Section 5.06.

"Registration Books" means the records maintained by the Trustee under Section 2.05 for the registration and transfer of ownership of the Bonds.

"Revenues" means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in Section 7.5(b)(v) of the Lease, and (ii) any Additional Rental Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority designates in written notice filed with the Trustee.

"Site Lease" means the Site Lease dated as of \_\_\_\_\_ 1, 2018, between the City as lessor and the Authority as lessee, as amended from time to time in accordance with its terms.

"Site Lease Payment" means the amount of \$\_\_\_\_\_ which is payable by the Authority to the City on the Closing Date under Section 3 of the Site Lease.

"S&P" means Standard & Poor's, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

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

"Term" means, with reference to the Lease, the time during which the Lease is in effect, as provided in Section 4.2 thereof.

"Term Bonds" means the Bonds maturing on November 1, 20\_\_.

"Trustee" means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, or its successor or successors, as Trustee hereunder as provided in Article VIII.

"Written Certificate," "Written Request" and "Written Requisition" of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

**APPENDIX B**

**BOND FORM**

NO. R-\_\_\_\_\_

\*\*\*\$\_\_\_\_\_\*\*\*

UNITED STATES OF AMERICA  
STATE OF CALIFORNIA

**ELK GROVE FINANCE AUTHORITY**

**2018 LEASE REVENUE BONDS  
(Capital Facilities)**

INTEREST RATE: \_\_\_\_\_%      MATURITY DATE: November 1, \_\_\_\_\_  
ORIGINAL ISSUE DATE: \_\_\_\_\_, 2018      CUSIP: \_\_\_\_\_

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \*\*\* \_\_\_\_\_ \*\*\*

**SPECIMEN**

The ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15<sup>th</sup> day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before \_\_\_\_\_ 15, 2018, in which event it shall bear interest from the Original Issue Date specified above; *provided, however*, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on November 1 and May 1 in each year, commencing \_\_\_\_\_ 1, 2018 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of U.S. Bank National Association, in Seattle, Washington (the "Trust Office"), as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee mailed on the Interest

Payment Date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee as of such Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such registered owner in such written request.

This Bond is not a debt of the City of Elk Grove (the "City"), the County of Sacramento, the State of California, or any of its political subdivisions, and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Revenues.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) (the "Bonds"), in an aggregate principal amount of \$ \_\_\_\_\_, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, and under an Indenture of Trust dated as of \_\_\_\_\_ 1, 2018, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on December 8, 2018, authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Authority to finance the acquisition and construction of capital improvements of the City. This Bond and the interest and premium, if any, hereon are special obligations of the Authority, payable from the Revenues, and secured by a charge and lien on the Revenues as defined in the Indenture, consisting principally of lease payments made by the City under a Lease Agreement dated as of \_\_\_\_\_ 1, 2018, between the Authority as lessor and the City as lessee (the "Lease"). As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

Optional Redemption Upon Election of the Authority. The Bonds maturing on or before November 1, \_\_\_\_\_ are not subject to optional redemption prior to maturity. The Bonds maturing on or after November 1, \_\_\_\_\_ are subject to redemption prior to maturity at the option of the Authority, as a whole or in part, on any Business Day on or after November 1, \_\_\_\_\_, at a redemption price equal to principal amount of the Bonds to be redeemed, plus accrued and unpaid interest thereon, without premium.

Mandatory Sinking Fund Redemption. The Term Bonds maturing November 1, \_\_\_\_\_, November 1, \_\_\_\_\_ and November 1, \_\_\_\_\_ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on November 1 in the respective years as set forth in the following table; *provided, however,* that if some but not all of the Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund Redemption Date <u>(November 1)</u>	Principal Amount <u>To Be Redeemed</u>
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**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund Redemption Date <u>(November 1)</u>	Principal Amount <u>To Be Redeemed</u>
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**Term Bonds Maturing November 1, \_\_\_\_\_**

Sinking Fund  
Redemption Date  
(November 1)

Principal Amount  
To Be Redeemed

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption prior to maturity in whole or in part on any date, at a redemption price equal to 100% of the principal amount thereof to be redeemed (plus accrued but unpaid interest to the redemption date), without premium, from Net Proceeds of title insurance received under the Lease Agreement and from Net Proceeds of certain damage and condemnation awards deposited in the Insurance and Condemnation Fund, and any other funds available for such purpose under this Indenture.

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 20 (or, if required by the Depository, 30) or more than 60 days prior to the redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption. Notice of any optional redemption of the Bonds may be rescinded under the circumstances set forth in the Indenture, upon notice to the owners of such Bonds.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Trust Office for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust

Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the Elk Grove Finance Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its President and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

**ELK GROVE FINANCE AUTHORITY**

By \_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Secretary

**CERTIFICATE OF AUTHENTICATION**

This is one of the Bonds described in the within-mentioned Indenture.

Dated:

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

By \_\_\_\_\_  
Authorized Signatory



## ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ whose address and social security or other tax identifying number is \_\_\_\_\_, the within-mentioned Bond and hereby \_\_\_\_\_ irrevocably constitute(s) \_\_\_\_\_ and \_\_\_\_\_ appoint(s) \_\_\_\_\_ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature(s) must be guaranteed by an eligible guarantor institution.

\_\_\_\_\_  
Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.



**EXHIBIT E**

**[\$[PRINCIPAL AMOUNT]]  
Elk Grove Finance Authority  
2018 Lease Revenue Bonds  
(Capital Facility)**

**BOND PURCHASE AGREEMENT**

March \_\_, 2018

Elk Grove Finance Authority  
Elk Grove, California

City of Elk Grove  
Elk Grove, California

Ladies and Gentlemen:

The undersigned, Stifel, Nicolaus & Company, Incorporated, as underwriter (the “Underwriter”), offers to enter into this Bond Purchase Agreement (this “Bond Purchase Agreement”) with the Elk Grove Finance Authority (the “Authority”) and the City of Elk Grove (the “City”), a political subdivision of the State of California (the “State”), which, upon acceptance of this offer by the Authority and the City, will be binding upon the Authority, the City and the Underwriter. This offer made is subject to receipt by the Underwriter of the documents referred to in Section 9 hereof and to acceptance by the Authority and the City by execution and delivery of this Bond Purchase Agreement to the Underwriter at or prior to 11:59 P.M., California time, on the date first above written, and if not so accepted will be subject to withdrawal by the Underwriter upon notice delivered to the Authority and the City at any time prior to the acceptance hereof by the Authority and the City. Capitalized terms in this Bond Purchase Agreement that are not otherwise defined herein shall have the meanings given to such terms in the Indenture, hereinafter defined.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties, covenants and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the Authority, and the Authority hereby agrees to sell to the Underwriter, all (but not less than all) of the Authority’s \$[PRINCIPAL AMOUNT] aggregate principal amount of Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facility) (the “Bonds”). The Bonds are being issued pursuant to the Indenture of Trust, dated as of [March 1, 2018] (the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds shall be delivered in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds shall be dated their date of delivery and mature on the dates and in the principal amounts, and shall bear interest at the rates, all as shown in Exhibit A. Interest on the Bonds will be payable semiannually on May 1 and November 1 of each year, commencing [\_\_\_\_\_]. The Bonds shall otherwise be as described in the Official Statement (as defined herein) with respect to the Bonds, dated March \_\_, 2018 (as further defined below), and be subject to redemption as provided therein.

The aggregate purchase price of the Bonds shall be \$[ ] (representing the aggregate principal amount of the Bonds of \$[PRINCIPAL AMOUNT].00, [plus/less] a [net] original issue [premium/discount] of \$[ ], and less an Underwriter's discount of \$[ ]).

The Authority and the City acknowledge and agree that: (i) the primary role of the Underwriter, as an underwriter, is to purchase securities, for resale to investors, in an arm's length commercial transaction between the issuer, in this case the Authority, and the Underwriter and the Underwriter has financial and other interests that differ from those of the Authority and the City; (ii) the Underwriter is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the Authority or the City and has not assumed any advisory or fiduciary responsibility to the Authority or the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Authority and/or the City on other matters); (iii) the only obligations the Underwriter has to the Authority and the City with respect to the transaction contemplated hereby expressly are set forth in this Bond Purchase Agreement; and (iv) the Authority and the City have each consulted its own financial and/or municipal, legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate. The Authority and the City acknowledge that they previously received from the Underwriter a letter regarding Municipal Securities Rulemaking Board ("MSRB") Rule G-17 Disclosures, and that they have provided to the Underwriter an acknowledgement of such letter.

2. The Bonds. The Bonds shall be issued in accordance with Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code (the "Act"), the Indenture, a Resolution of the Authority approving the issuance of the Bonds (the "Authority Resolution"), and a Resolution of the City approving the issuance of the Bonds (the "City Resolution").

The Bonds are special obligations of the Authority that are secured and payable solely from Revenues (as that term is defined in the Indenture), including Lease Payments, as that term is defined in, and payable by the City pursuant to, that certain Lease Agreement, dated as of [March 1, 2018] (the "Lease"), between the Authority and the City, relating to certain real properties and improvements located thereon (the "Leased Property"), and the other assets pledged under the Indenture. In connection therewith, the City and the Authority have entered into that certain Site Lease, dated as of [March 1, 2018] (the "Site Lease"), providing for the lease of the Leased Property by the City to the Authority. The Lease provides for the sublease of the Leased Property from the Authority back to the City. Pursuant to an Assignment Agreement, dated as of [March 1, 2018] (the "Assignment Agreement"), the Authority has assigned to the Trustee certain of its rights, title and interest in and to the Lease.

3. Purpose of the Bonds. The Bonds are being issued to (i) finance the acquisition, construction, improvement and/or equipping of certain public capital improvements and (ii) pay the costs of issuing the Bonds.

4. Offering. It shall be a condition to the Authority's obligation to sell and issue the Bonds to the Underwriter and to the Underwriter's obligation to purchase, to accept delivery of and to pay for Bonds that the entire aggregate principal amount of the Bonds referred to in Section 1 shall be issued by the Authority and purchased, accepted and paid for by the Underwriter at the Closing (as defined herein). The Underwriter agrees to make an initial public offering of all of the Bonds at the public offering prices (or yields) set forth on Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as the Underwriter deems necessary in connection with the marketing of the Bonds. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering prices. The Underwriter also reserves the right to: (i) over-allot or

effect transactions which stabilize or maintain the market price of the Bonds at levels above those that might otherwise prevail in the open market and (ii) discontinue such stabilizing, if commenced, at any time without prior notice. The City and the Authority hereby authorize the use by the Underwriter of this Bond Purchase Agreement, the Indenture, the Lease, the Site Lease, the Assignment Agreement, the Authority Resolution, the City Resolution, the Continuing Disclosure Certificate relating to the Bonds, dated the date of Closing (the "Continuing Disclosure Certificate"), executed by the City, on behalf of itself and the Authority, to enable the Underwriter to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 ("Rule 15c2-12"), and the Official Statement, and any supplements or amendments thereto, and the information contained in each of such documents, in connection with the public offering and sale of the Bonds. This Bond Purchase Agreement, the Indenture, the Lease, the Site Lease, the Assignment Agreement, the Authority Resolution, the City Resolution and the Continuing Disclosure Certificate are referred to herein as the "Legal Documents."

5. Official Statement. Upon the Authority's and the City's acceptance of this offer, the Authority and the City shall be deemed to have ratified, approved and confirmed the use and distribution by the Underwriter of the Preliminary Official Statement, dated March \_\_, 2018 (together with any appendices thereto, any documents incorporated therein by reference and any supplements or amendments thereto and as disseminated in its printed physical form or in electronic form in all respects materially consistent with such physical form, the "Preliminary Official Statement") with respect to the Bonds, in connection with the public offering and sale of the Bonds by the Underwriter. The Authority and the City hereby represent and warrant that the Preliminary Official Statement was "deemed final" by the Authority and the City as of its date for purposes of Rule 15c2-12, except for the information permitted to be omitted therefrom by such Rule. The Authority shall deliver the Official Statement to the Underwriter (a) in "designated electronic format" (as defined in Rule G-32 of the Municipal Securities Rulemaking Board) and (b) in printed form in such quantities as the Underwriter shall reasonably request, dated the date hereof, substantially in the form of the Preliminary Official Statement, with only such changes as shall have been accepted by the Underwriter (said document, including its cover page, inside cover page and appendices, as the same may be amended and supplemented in accordance with this Bond Purchase Agreement and as disseminated in its printed physical form or in electronic form in all respects materially consistent with such physical form, the "Official Statement"), approved for distribution pursuant to the Authority Resolution and the City Resolution. The Authority shall, as soon as practicable, but not later than seven (7) business days from the date hereof, deliver to the Underwriter such copies of the Official Statement and, in the event the date of Closing is less than seven (7) business days after the date hereof, upon request of the Underwriter, in sufficient time to accompany any confirmation requesting payment from any customers of any Underwriter and not later than three (3) business days prior to Closing. The Authority and the City hereby confirm the authority of the Underwriter to use, and consent to the use of, the Official Statement in connection with the public offering and sale of the Bonds.

The Authority and the City authorize the Underwriter to file, and the Underwriter agrees to file or cause to be filed, a copy of the Official Statement, including any supplements thereto, with the MSRB through its Electronic Municipal Market Access system.

6. Representations, Warranties and Agreements of the City. The City hereby represents, warrants and agrees with the Underwriter as follows:

(a) the City is, and will be on the date of Closing, a political subdivision of the State organized and operating pursuant to the Constitution and laws of the State and has full legal right, power and authority to adopt or execute and deliver, as the case may be, the Legal Documents to be adopted or executed by it and the Official Statement, to own its properties, to carry on its business as presently conducted and to carry out and to consummate the transactions contemplated to be taken by it by the Legal Documents and the Official Statement;

(b) by all necessary official action of the City, prior to or concurrently with the acceptance hereof, the City has duly adopted or authorized and approved (i) the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement for use by the Underwriter in connection with the public offering of the Bonds, (ii) the issuance and sale of the Bonds upon the terms set forth herein and as contemplated by the Act, the Legal Documents and the Official Statement, (iii) the execution and delivery of, and the performance by the City of the obligations on its part contained in, the Legal Documents to be adopted or entered into by it, and (iv) the consummation by it of all other transactions contemplated by the Legal Documents;

(c) this Bond Purchase Agreement has been, as of the date hereof, and the other Legal Documents to be entered into by the City will have been as of the date of Closing, duly authorized, executed and delivered by the City and constitute legal, valid and binding agreements of the City, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought;

(d) the adoption, execution and delivery of the Legal Documents to be adopted or entered into by the City and compliance with the provisions on the City's part contained herein and therein, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or its assets is otherwise subject, and such adoption, execution, delivery or compliance will not result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City available to be used to make payments under the Lease or under the terms of any such constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Legal Documents adopted or entered into by the City;

(e) the City is not in breach of or default in any material respect under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets are otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material breach or default by the City under any of the foregoing;

(f) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the adoption of the City Resolution or the payment of Lease Payments as required under the Lease or in any way contesting or affecting the validity or enforceability of, or the power or ability of the City to adopt or enter into, the Legal Documents or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or wherein an unfavorable decision, ruling or finding would materially adversely affect the financial position or condition of the City or would result in any material adverse change in the ability of the City to pay Lease Payments as required under the Lease, or contesting the status of the interest on the Bonds as excludable from gross income for federal income tax purposes or as exempt from any state tax;

(g) the City will furnish such information, execute such instruments and take such other actions in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the blue sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the City be required to qualify to do business or consent to service of process in any jurisdiction without its approval;

(h) the Preliminary Official Statement did not, as of its date, and does not, as of the date hereof, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the Official Statement does not, as of the date hereof, and will not, as of the date of Closing, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) if between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, an event occurs which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will notify the Underwriter, and, if in the reasonable opinion of the Underwriter, such event requires the preparation and distribution of a supplement or amendment to the Official Statement, the City shall cooperate with the Authority in preparing and furnishing to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) that will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, for the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request; provided, further, as used in this Bond Purchase Agreement, the term "End of the Underwriting Period" for the Bonds shall mean the earlier of (i) the date of Closing unless the City and the Authority shall have been notified in writing to the contrary by the Underwriter on or prior to said date or (ii) the date on which the End of the Underwriting Period for the Bonds has occurred under Rule 15c2-12; provided, however, that the City and the Authority may treat as the End of the Underwriting Period for the Bonds as the date specified as such in a notice from the Underwriter stating the date that is the End of the Underwriting Period;

(j) if the information contained in the Official Statement is amended or supplemented pursuant to the terms hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the City will further amend or supplement the Official Statement so that the Official Statement, as supplemented or amended (including any financial and statistical data contained therein), will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) all consents, approvals, authorizations or orders of any governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect, the

due performance by the City of its obligations under the Legal Documents to which it is a party have been duly obtained or will be obtained prior to Closing, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter;

(l) the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter;

(m) except as described in the Preliminary Official Statement and the Official Statement, the City has not failed during the previous five years to comply in all material respects with any continuing disclosure undertakings under Rule 15c2-12;

(n) the financial statements of, and other financial information regarding, the City contained in the Preliminary Official Statement, as of its date and as of the date hereof, and the final Official Statement, as of its date and the date of Closing, fairly present the financial position and results of the operations of the City as of the dates and for the periods therein set forth, and (i) the audited financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, and (ii) the other financial information has been determined on a basis substantially consistent with that of the City's audited financial statements included in the Preliminary Official Statement and the Official Statement and there has been no material adverse change in the financial position or results of operations of the City since the dates of such financial statements and other financial information;

(o) prior to the date of Closing, except as otherwise contemplated by the Preliminary Official Statement and the Official Statement, the City shall not create, assume or guarantee any indebtedness or other material financial obligations payable from the City's general fund, or pledge or otherwise encumber, the Revenues or other assets, properties, funds or interests that will be pledged as security or be available as a source of payment for the Bonds pursuant to the Legal Documents;

(p) the City shall not knowingly take or omit to take any action that, under existing law, may adversely affect the exclusion from gross income for federal income tax purposes, or the exemption from any applicable state tax, of the interest on the Bonds;

(q) any certificate signed by an authorized officer of the City and delivered to the Underwriter shall be deemed a representation and warranty of the City to the Underwriter as to the statements made therein;

(r) the Act, the Bonds and the Legal Documents conform to the description thereof contained in the Preliminary Official Statement and the Official Statement; and

(s) the exceptions set forth in the preliminary title report with respect to the Leased Property, subject to permitted encumbrances, do not, and the exceptions set forth in the policy or policies of title insurance will not, materially impair the value of the Leased Property, the existing facilities thereon or the sites thereof, nor materially impair the City's enjoyment of the same for any purposes for which they are, or may reasonably be expected to be, used.

7. Representations, Warranties and Agreements of the Authority. The Authority represents, warrants and agrees with the Underwriter as follows:

(a) the Authority is, and will be on the date of Closing, a joint exercise of powers authority duly organized and operating pursuant to Chapter 5, Division 7, Title 1 of the California Government Code and has full legal right, power and authority to adopt or execute and deliver, as the case may be, the



Legal Documents to be adopted or executed by it and the Official Statement, to issue, sell and deliver the Bonds, to own its properties, to carry on its business as presently conducted and to carry out and to consummate the transactions contemplated to be taken by it by the Legal Documents and the Official Statement;

(b) by all necessary official action of the Authority, prior to or concurrently with the acceptance hereof, the Authority has duly adopted or authorized and approved (i) the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement for use by the Underwriter in connection with the public offering of the Bonds, (ii) the issuance and sale of the Bonds upon the terms set forth herein and as contemplated by the Act, the Legal Documents and the Official Statement, (iii) the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Bonds, the Act and the Legal Documents to be adopted or entered into by it, and (iv) the consummation by it of all other transactions contemplated by the Legal Documents;

(c) this Bond Purchase Agreement has been and the other Legal Documents to be entered into by the Authority and the Bonds will have been as of the date of Closing, duly authorized, issued, executed and delivered by the Authority and constitute legal, valid and binding agreements of the Authority, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought;

(d) the adoption, execution, delivery and issuance of the Bonds and the Legal Documents to be adopted or entered into by the Authority and compliance with the provisions on the Authority's part contained herein and therein, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets is otherwise subject, and such adoption, execution, delivery, issuance or compliance will not result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the Revenues or any of the properties or assets of the Authority pledged to secure the Bonds or under the terms of any such constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Bonds or the Legal Documents adopted or entered into by the Authority;

(e) the Authority is not in breach of or default in any material respect under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets are otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material breach or default by the Authority under any of the foregoing;

(f) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or the pledge or collection by the Authority of the Revenues and other assets pledged under the Indenture or the making of any other required deposits with respect to the Bonds or in any way contesting or affecting the validity or enforceability of, or the power or ability of the Authority to issue, adopt or enter into, the Bonds or the Legal Documents or contesting the powers of the Authority or its authority to issue, enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the

completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or wherein an unfavorable decision, ruling or finding would materially adversely affect the ability of the Authority to perform its obligations under the Act, the Bonds or the Legal Documents, or contesting the status of the interest on the Bonds as excludable from gross income for federal income tax purposes or as exempt from any state tax;

(g) the Authority will furnish such information, execute such instruments and take such other actions in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the Authority be required to qualify to do business or consent to service of process in any jurisdiction without its approval;

(h) the Preliminary Official Statement did not, as of its date, and does not, as of the date hereof, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the Official Statement does not, as of the date hereof, and will not, as of the date of Closing, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) if between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, an event occurs which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority will notify the Underwriter, and, if in the reasonable opinion of the Underwriter, such event requires the preparation and distribution of a supplement or amendment to the Official Statement, the Authority shall forthwith prepare and furnish to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) that will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, for the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the Bonds, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(j) if the information contained in the Official Statement is amended or supplemented pursuant to the terms hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the Authority will further amend or supplement the Official Statement so that the Official Statement, as supplemented or amended (including any financial and statistical data contained therein), will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) all consents, approvals, authorizations or orders of any governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which

would constitute a condition precedent to, or the absence of which would materially adversely affect, the due performance by the Authority of its obligations under the Act, the Bonds and the Legal Documents to which it is a party have been duly obtained or will be obtained prior to Closing, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter;

(l) the Authority will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter;

(m) except as described in the Preliminary Official Statement and the Official Statement, the Authority has not failed during the previous five years to comply in all material respects with any continuing disclosure undertakings under Rule 15c2-12;

(n) prior to the date of Closing, except as otherwise contemplated by the Preliminary Official Statement and the Official Statement, the Authority shall not create, assume or guarantee any indebtedness payable from, or pledge or otherwise encumber, the Revenues or other assets, properties, funds or interests that will be pledged as security or be available as a source of payment for the Bonds pursuant to the Legal Documents;

(o) the Authority shall not knowingly take or omit to take any action that, under existing law, may adversely affect the exclusion from gross income for federal income tax purposes, or the exemption from any applicable state tax, of the interest on the Bonds;

(p) the Bonds will be issued in conformity with and entitled to the benefit and security of the Act and the Indenture, including the pledge and application thereunder of the Revenues and other assets pledged pursuant to the Indenture;

(q) the Act, the Legal Documents and the Bonds conform to the description thereof contained in the Preliminary Official Statement and the Official Statement;

(r) the Authority has the legal authority to apply the proceeds of the Bonds for the purposes contemplated by the Act and the Legal Documents, including for the payment or reimbursement of incidental expenses in connection with the marketing, issuance and delivery of the Bonds to the extent required by Section 11 of this Bond Purchase Agreement and in compliance with applicable law; and

(s) any certificate signed by an authorized officer of the Authority and delivered to the Underwriter shall be deemed a representation and warranty of the Authority to the Underwriter as to the statements made therein.

8. **Closing.** At 8:00 a.m., California time, on March \_\_, 2018, or at such other date and/or time as shall have been mutually agreed upon by the Authority, the City and the Underwriter, the Authority will issue or cause to be issued to the Underwriter the Bonds in definitive form duly executed by the Authority and authenticated by the Trustee in book-entry form through the facilities of The Depository Trust Company, New York, New York ("DTC") as described below, or at such other place upon which the Underwriter, the Authority and the City may mutually agree, and the other documents hereinafter mentioned shall be delivered at the office of Jones Hall, A Professional Law Corporation, San Francisco, California ("Bond Counsel"), or at such other place as shall have been mutually agreed upon by the Authority, the City and the Underwriter. Subject to the terms and conditions hereof, the Underwriter will accept delivery of the Bonds and pay the purchase price thereof as set forth herein in immediately available funds (such delivery of and payment for the Bonds is herein called the "Closing").

The Bonds shall be prepared and delivered to the Underwriter on the date of Closing in the form of one certificate for each maturity of the Bonds, fully registered in the name of Cede & Co., as nominee of DTC.

9. Closing Conditions. The Underwriter has entered into this Bond Purchase Agreement in reliance upon the representations, warranties and agreements of the Authority and the City contained herein, the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Authority and the City of their respective obligations herein, both as of the date hereof and as of the date of Closing. Accordingly, the Underwriter's obligations under this Bond Purchase Agreement to purchase, accept delivery of, and pay for the Bonds shall be conditioned upon the performance by the Authority and the City of their obligations to be performed herein and the accuracy and delivery of the documents and instruments required to be delivered hereby at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) the representations and warranties of the Authority and the City contained or incorporated herein shall be true, complete and correct at the date hereof and on and as of the date of Closing as if made on the date of Closing;

(b) at the time of the Closing, the Legal Documents to be entered into by the Authority or the City shall have been duly executed and delivered by, and be in full force and effect as valid and binding agreements between, the various parties thereto, and the Legal Documents and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, the Bonds shall have been duly executed, delivered and authenticated, the Official Statement shall have been executed and delivered by the Authority and the City at or prior to the Closing in sufficient time to permit the Underwriter to comply with its obligations under Rule 15c2-12, there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by the Preliminary Official Statement, the Official Statement and the Legal Documents, the proceeds of sale of the Bonds shall have been paid to the Authority or its designee for deposit for use as described in the Preliminary Official Statement, the Official Statement and the Legal Documents, and the City and the Authority shall have complied with all agreements and satisfied all the conditions on their part to be performed at or prior to the Closing;

(c) at the time of the Closing, all official actions of the Authority and the City relating to the Legal Documents and the Bonds shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented in any material respect from the date hereof except as may have been agreed to in writing by the Underwriter;

(d) at the time of Closing, the Official Statement (as amended and supplemented) shall be true and correct in all material respects, and shall not omit any statement or information necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) at or prior to the time of Closing, the Underwriter shall receive the following documents, in each case reasonably satisfactory in form and substance to the Underwriter:

- (i) the Official Statement and each supplement or amendment thereto, if any;
- (ii) executed copies of the Legal Documents;

(iii) the unqualified approving opinion of Bond Counsel, dated the date of Closing and addressed to the Authority and the City, substantially in the form set forth in Appendix D to the Official Statement, together with a letter or letters of such counsel, dated the date of Closing and addressed to the Underwriter and the Trustee, to the effect that the foregoing approving legal opinion addressed to the Authority and the City may be relied upon by the Underwriter and the Trustee to the same extent as if such opinion were addressed to them;

(iv) a supplemental opinion of Bond Counsel substantially in the form attached hereto as Exhibit B dated the date of Closing and addressed to the Underwriter;

(v) the opinion of Jones Hall, A Professional Law Corporation, Disclosure Counsel, dated the date of Closing and addressed to the Authority, the City and the Underwriter, substantially in the form set forth in hereto as Exhibit C;

(vi) an opinion of the City Attorney, as counsel to the City, dated the date of Closing and addressed to the Underwriter to the effect that:

(A) the City is a political subdivision of the State, duly organized and validly existing pursuant to the laws and Constitution of the State and has full legal right, power and authority to adopt or execute and deliver, as the case may be, the Legal Documents to be adopted or executed by it and the Official Statement, to own its properties, to carry on its business as presently conducted and to carry out and to consummate the transactions contemplated to be taken by it by the Legal Documents and the Official Statement;

(B) the City Resolution was duly adopted at a meeting of the City Council of the City, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting at the time of adoption;

(C) by all necessary official action of the City, the City has duly adopted or authorized and approved (i) the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement, (ii) the issuance and sale of the Bonds upon the terms set forth herein and as contemplated by the Act, the Legal Documents and the Official Statement, (iii) the execution and delivery of, and the performance by the City of the obligations on its part contained in, the Legal Documents to be adopted or entered into by it, and (iv) the consummation by it of all other transactions contemplated by the Legal Documents;

(D) the Legal Documents to which the City is a party have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other respective parties thereto, constitute legal, valid and binding obligations of the City, enforceable against the City in accordance with their respective terms;

(E) the City is not in breach of or default in any material respect under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets are otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material breach or default by the City under any of the foregoing;

(F) the adoption, execution and delivery of the Legal Documents adopted or entered into by the City and compliance with the provisions on the City's part contained therein, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or its assets is otherwise subject, and such adoption, execution, delivery or compliance will not result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City available to be used to make payments under the Lease or under the terms of any such constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Legal Documents adopted or entered into by the City;

(G) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the knowledge of the City Attorney, threatened against the City affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the adoption of the City Resolution or the payment of Lease Payments as required under the Lease or in any way contesting or affecting the validity or enforceability of, or the power or ability of the City to adopt or enter into, the Legal Documents or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or wherein an unfavorable decision, ruling or finding would materially adversely affect the financial position or condition of the City or would result in any material adverse change in the ability of the City to pay Lease Payments as required under the Lease, or contesting the status of the interest on the Bonds as excludable from gross income for federal income tax purposes or as exempt from any state tax;

(H) all consents, approvals, authorizations or orders of any governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect, the due performance by the City of its obligations under the Legal Documents to which it is a party have been duly obtained, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter;

(I) nothing has come to the City Attorney's attention that would lead the City Attorney to believe that the Preliminary Official Statement, as of the date thereof and as of the date of the Bond Purchase Agreement, and the Official Statement, as of the date thereof and as of the date of Closing, contained or contains any untrue statement of material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(J) the preparation and distribution of the Preliminary Official Statement and the Official Statement have been duly authorized by the City Council of the City;

(vii) an opinion of the City Attorney, as counsel to the Authority, dated the date of Closing and addressed to the Underwriter and the Trustee to the effect that:

(A) the Authority is a joint exercise of powers authority duly organized and operating pursuant to Chapter 5, Division 7, Title 1 of the California Government Code, and has full legal right, power and authority to adopt or execute and deliver, as the case may be, the Legal Documents to be adopted or executed by it and the Official Statement, to issue, sell and deliver the Bonds, to own its properties, to carry on its business as presently conducted and to carry out and to consummate the transactions contemplated to be taken by it by the Legal Documents and the Official Statement;

(B) the Authority Resolution was duly adopted at a regular meeting of the Board of Directors of the Authority, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting at the time of adoption;

(C) by all necessary official action of the Authority, the Authority has duly adopted or authorized and approved (i) the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement for use by the Underwriter in connection with the public offering of the Bonds, (ii) the issuance and sale of the Bonds, (iii) the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Bonds, the Act and the Legal Documents to be adopted or entered into by it, and (iv) the consummation by it of all other transactions contemplated by the Legal Documents;

(D) the Legal Documents to which the Authority is a party and the Bonds have been duly authorized, executed and delivered and issued, as applicable, by the Authority and, assuming due authorization, execution and delivery by the other respective parties thereto, constitute legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms;

(E) the Authority is not in breach of or default in any material respect under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets are otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material breach or default by the Authority under any of the foregoing;

(F) the adoption, execution, delivery and issuance of the Bonds and the Legal Documents adopted or entered into by the Authority and compliance with the provisions on the Authority's part contained therein, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets is otherwise subject, and such adoption, execution, delivery, issuance or compliance will not result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the Revenues or any of the properties or assets of the Authority pledged to secure the Bonds or under the terms of any such constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Bonds or the Legal Documents adopted or entered into by the Authority;

(G) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the knowledge of the City Attorney, threatened against the Authority affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or the pledge or collection by the Authority of the Revenues and other assets pledged under the Indenture or the making of any other required deposits with respect to the Bonds or in any way contesting or affecting the validity or enforceability of, or the power or ability of the Authority to issue, adopt or enter into, the Bonds or the Legal Documents or contesting the powers of the Authority or its authority to issue, enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, or wherein an unfavorable decision, ruling or finding would materially adversely affect the ability of the Authority to perform its obligations under the Act, the Bonds or the Legal Documents, or contesting the status of the interest on the Bonds as excludable from gross income for federal income tax purposes or as exempt from any state tax;

(H) all consents, approvals, authorizations or orders of any governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect, the due performance by the Authority of its obligations under the Act, the Bonds and the Legal Documents to which it is a party have been duly obtained, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter;

(I) nothing has come to the City Attorney's attention that would lead the City Attorney to believe that the Preliminary Official Statement, as of the date thereof and as of the date of the Bond Purchase Agreement, and the Official Statement, as of the date thereof and as of the date of Closing, contained or contains any untrue statement of material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(J) the preparation and distribution of the Preliminary Official Statement and the Official Statement have been duly authorized by the Board of Directors of the Authority;

(viii) a certificate of an authorized officer of the City dated the date of Closing to the effect that:

(A) the representations and warranties of the City contained herein are true and correct on and as of the date of Closing with the same effect as if made on the date of Closing;

(B) no event affecting the City has occurred since the date of the Official Statement which should be disclosed in the Official Statement, as the same may be supplemented or amended, in order that the Official Statement not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading;



(C) the City has obtained insurance, or otherwise provided for self-insurance, as required by the Lease and all required policies are in full force and effect and have not been revoked or rescinded; and

(D) the City has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied pursuant to the Legal Documents to which it is a party at or prior to the Closing;

(ix) a certificate of an authorized officer of the Authority dated the date of Closing to the effect that:

(A) the representations and warranties of the Authority contained herein are true and correct on and as of the date of Closing with the same effect as if made on the date of Closing;

(B) no event affecting the Authority has occurred since the date of the Official Statement which should be disclosed in the Official Statement, as the same may be supplemented or amended, in order that the Official Statement not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading; and

(C) the Authority has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied pursuant to the Legal Documents to which it is a party at or prior to the Closing;

(x) a certificate of the Trustee dated the date of Closing to the effect that:

(A) the Trustee is duly organized and existing as a national banking association organized and existing under the laws of the United States of America, having the full power and authority to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds;

(B) the Trustee is duly authorized to enter into the Indenture and the Assignment Agreement, and, when the Indenture is duly authorized, executed and delivered by the other parties thereto, to deliver the Bonds to the Underwriter pursuant to the terms of the Indenture;

(C) the execution and delivery by the Trustee of the Assignment Agreement, the Indenture and the Bonds, and compliance with the terms thereof, will not conflict with, or result in a violation or breach of, or constitute a default under, any material agreement or instrument to which the Trustee is a party or by which it is bound, or, to its knowledge, any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement is made by the Trustee with respect to any federal or state securities or blue sky laws or regulations);

(D) no authorization, approval, consent or order of any governmental agency or any other person is required for the valid authorization, execution and delivery of the Indenture by the Trustee or the delivery of the Bonds by the Trustee;

(E) to the Trustee's knowledge, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, that has been served on or threatened against or affecting the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Indenture or the Assignment Agreement, or contesting the powers of the Trustee or its authority to enter into and perform its obligations under any of the foregoing, or wherein an unfavorable decision, ruling or finding would adversely affect the Trustee or the transactions contemplated in connection with the delivery of the Bonds, or which, in any way, would adversely affect the validity of the Indenture or the Assignment Agreement or any agreement or instrument to which the Trustee is a party and which is used or contemplated for use in the Indenture or the Assignment Agreement, or the consummation of the transactions contemplated in connection with the issuance of the Bonds; and

(F) subject to the provisions of the Indenture, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture;

(xi) an opinion of counsel to the Trustee dated the date of Closing addressed to the City, the Authority and the Underwriter to the effect that:

(A) the Trustee is a national banking association organized and existing under the laws of the United States, having full power and being qualified to enter, accept and administer the trust created under the Indenture and to deliver the Bonds; and

(B) the Bonds have been duly authenticated and delivered by the Trustee in accordance with the Indenture, and the Indenture and the Assignment Agreement have been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery thereof by the other parties thereto, constitute the legal, valid and binding obligations of the Trustee enforceable in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought;

(xii) an opinion of Orrick, Herrington & Sutcliffe LLP, counsel to the Underwriter, dated the date of Closing and addressed to the Underwriter in form reasonably satisfactory to the Underwriter;

(xiii) evidence of the existence and validity of a policy or policies of title insurance with respect to the Leased Property;

(xiv) certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of the Indenture;

(xv) a copy of the Authority Resolution certified by the Secretary of the Authority authorizing the execution and delivery of the Legal Documents to which the Authority is a party;

(xvi) a copy of the City Resolution certified by the City Clerk authorizing the execution and delivery of the Legal Documents to which the City is a party;

(xvii) the preliminary and final Notice of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the California Government Code and Section 8855(g) of the California Government Code;

(xviii) an executed copy of the Tax Certificate for the Bonds, in form and substance acceptable to Bond Counsel;

(xix) an Internal Revenue Service Form 8038-G, in form satisfactory to Bond Counsel for filing, executed by an authorized officer of the Authority;

(xx) evidence that the ratings on the Bonds are as described in the Official Statement;

(xxi) a copy of the Blanket Letter of Representations to DTC relating to the Bonds signed by the Authority; and

(xxii) such additional legal opinions, certificates, instruments and other documents as Bond Counsel or the Underwriter may reasonably request to evidence compliance by the Trustee, the City and the Authority with legal requirements, the truth and accuracy, as of the time of Closing, of the representations contained herein and in the Official Statement, the lack of any material adverse litigation or proceeding and the due performance or satisfaction by the Trustee, the Authority and the City, at or prior to such time of all agreements to be performed and all conditions then to be satisfied.

10. Termination. The Underwriter shall have the right to cancel the Underwriter's obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds and to terminate this Bond Purchase Agreement by notifying the City or Authority of its election to do so if, after the execution hereof and prior to the Closing any of the following events (each a "Termination Event") shall occur in the sole and reasonable judgment of the Underwriter:

(a) legislation shall be introduced in, enacted by, reported out of committee, pending in committee, or recommended for passage by the State legislature, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States or a member of the President's Cabinet, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Code shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a ruling resolution, regulation, temporary regulation, release, announcement or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other federal or state authority with appropriate jurisdiction, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the taxation of interest received on obligations of the general character of the Bonds which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(b) legislation shall have been enacted by the Congress of the United States or shall have been favorably reported out of committee or be pending in committee, or shall have been recommended

to the Congress for passage by the President of the United States or a member of the President's Cabinet, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of any action shall have been taken by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that any obligations of the general character of the Bonds or the Legal Documents, or any comparable securities of the Authority or the City, are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), or otherwise, or would be in violation of any provision of the federal securities laws;

(c) (i) the Constitution of the State shall be amended or an amendment shall qualify for the ballot, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of State law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State by an official, agency or department thereof, affecting the tax status of the City or Authority, its property or income, its bonds or notes (including the Bonds) or the interest thereon which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(d) a general suspension of trading on the New York stock exchange or other major exchange shall be in force, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices of securities shall have been required and be in force on any such exchange, whether by virtue of determination by that exchange or by order of the Securities and Exchange Commission or any other governmental authority having jurisdiction which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(e) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis in the financial markets of the United States or elsewhere, the effect of which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(f) any rating on the Bonds or any securities of the Authority or the City payable from the City's general fund is reduced, suspended or withdrawn or placed on credit watch, negative outlook or similar qualification by any major credit rating agency which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(g) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a charge to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, any other national securities exchange, the Securities and Exchange Commission, any other federal or state agency, the Congress of the United States or by Executive order;

(h) a general banking moratorium shall have been declared by federal or New York or California state authorities and be in force or a material disruption in securities settlement, payment or clearance services shall have occurred;

(i) the purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency, commission or otherwise;

(j) a decision by a court of the United States shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the Bonds, including any underlying obligations as contemplated by this Bond Purchase Agreement or by the Official Statement, or any document relating to the issuance, offering or sale of the Bonds, is or would be a violation of any provision of the federal securities laws at the date of Closing, including the Securities Act, the Securities Exchange Act of 1934, as amended, and the Trust Indenture Act;

(k) except as disclosed in or contemplated by the Preliminary Official Statement and the Official Statement, any material adverse change in the affairs of the Authority or the City which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or

(l) any event or circumstance shall exist that either makes untrue or incorrect in any material respect any statement or information in the Official Statement (other than any statement provided by the Underwriter) or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading and requires an amendment of or supplement to the Official Statement and the effect of which, in the sole and reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds.

Upon the occurrence of a Termination Event and the termination of this Bond Purchase Agreement by the Underwriter, all obligations of the Authority, the City and the Underwriter under this Bond Purchase Agreement shall terminate, without further liability, except that the Authority, the City and the Underwriter shall pay their respective expenses as set forth in Section 11 of this Bond Purchase Agreement.

11. Expenses. (a) The Underwriter shall be under no obligation to pay and the Authority and the City shall pay or cause to be paid the expenses incident to the performance of their obligations hereunder including, but not limited to, (i) all expenses in connection with the preparation, printing, issuance and delivery of the Bonds; (ii) all expenses in connection with the preparation, printing and delivery of the Preliminary Official Statement and the Official Statement and any supplements and amendments thereto; (iii) the fees and expenses of Bond Counsel, Disclosure Counsel and the City Attorney; (iv) the fees and expenses of the Trustee; (v) the fees and expenses of Fieldman, Rolapp & Associates, Inc., Irvine, California for its services as municipal advisor to the Authority or the City; (vi) the fees and expenses of any other engineers, accountants, and other experts, consultants or advisers retained by the Authority or the City; (vii) all expenses in connection with obtaining a rating or ratings for the Bonds; (viii) all expenses of the Authority and the City in connection with the preparation, printing, execution and delivery, and any recording or filing of the Legal Documents or any other instrument; (ix) any expenses and costs in connection with obtaining a policy or policies of title insurance with respect to the Leased Property; and (x) all other expenses and costs of the Authority or the City incident to their obligations in connection with the authorization, issuance, sale and distribution of the Bonds. The Authority will reimburse the Underwriter for all incidental costs (including, but not limited to, transportation, lodging and meals of Authority or City personnel, but not including entertainment expenses of Authority or City personnel) paid by the Underwriter on behalf of the Authority or the City in connection with the marketing, issuance and delivery of the Bonds.

(b) The Underwriter shall pay (from the expense component of the Underwriter's discount) only: (i) the cost of preparing the Blue Sky Memorandum, if any; (ii) all advertising expenses and Blue

Sky filing fees in connection with the public offering of the Bonds; (iii) the fees and disbursements of Orrick, Herrington & Sutcliffe LLP, counsel to the Underwriter; (iv) fees for a continuing disclosure undertaking compliance review; and (v) all other expenses incurred by the Underwriter in connection with the public offering of the Bonds. The Underwriter is required to pay fees to the California Debt and Investment Advisory Commission in connection with its offering of the Bonds.

12. Establishment of Issue Price.

(a) The Underwriter agrees to assist the Authority and the City in establishing the issue price of the Bonds and shall execute and deliver to the Authority and the City at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit D, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Authority, the City and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. [All actions to be taken by the Authority or the City under this section to establish the issue price of the Bonds may be taken on behalf of the Authority or the City by the Authority’s or the City’s municipal advisor identified herein and any notice or report to be provided to the Authority or the City may be provided to the Authority’s or the City’s municipal advisor.]

(b) [Except as otherwise set forth in Schedule A attached hereto,] the Authority and the City will treat the first price at which 10% of each maturity of the Bonds is sold to the public (the “10% test”) as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Bond Purchase Agreement, the Underwriter shall report to the Authority and the City the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Authority and the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

*[Schedule A and subsection (c) shall apply only if the Underwriter agrees to apply the hold-the-offering-price rule, as described below.]*

(c) The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Bond Purchase Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Schedule A attached hereto, except as otherwise set forth therein. Schedule A also sets forth, as of the date of this Bond Purchase Agreement, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the Authority, the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Authority and the City to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the Authority and the City when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(d) The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriter. The Authority and the City acknowledge that, in making the representation set forth in this subsection, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, if applicable, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a retail distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, if applicable, as set forth in the retail distribution agreement and the related pricing wires. The Authority and the City further acknowledge that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party,

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the Authority (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds 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 Bonds to the public),

(iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) “sale date” means the date of execution of this Bond Purchase Agreement by all parties.

13. Representations of Underwriter. The Underwriter represents and warrants to the Authority and the City that it is authorized to enter into this Bond Purchase Agreement and to take all actions required or contemplated to be performed by the Underwriter under this Bond Purchase Agreement.

14. Notices. Any notice or other communication (other than the acceptance hereof as specified in the first paragraph hereof) to be given under this Bond Purchase Agreement may be given by delivering the same in writing to the City to:

City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, CA 95758  
Attention: [ ]

to the Authority:

Elk Grove Finance Authority  
c/o City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, CA 95758  
Attention: [ ]

and to the Underwriter:

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, CA 94104  
Attention: Sara Brown

15. Parties in Interest; Survivability of Representations, Warranties and Agreements. This Bond Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Authority's and the City's representations, warranties and agreements contained in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) issuance of and payment for the Bonds pursuant to this Bond Purchase Agreement; and (iii) any termination of this Bond Purchase Agreement.

16. Governing Law. The laws of the State shall govern the validity, interpretation and performance of this Bond Purchase Agreement.

17. Entire Agreement; Severability. This Bond Purchase Agreement, when accepted by the Authority and the City in writing as heretofore specified, shall constitute the entire agreement among the Authority, the City and the Underwriter. If any provision of this Bond Purchase Agreement is, or is held or deemed to be, invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions because it conflicts with any provision of any constitution, statute, rule of public policy or for any other reason, such circumstances shall not make the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or make any other provision or provisions of this Bond Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.



18. Headings. The section headings of this Bond Purchase Agreement are inserted for convenience of reference only and shall not be used in the interpretation of any provisions of this Bond Purchase Agreement.

19. Effectiveness. This Bond Purchase Agreement shall become effective upon the execution of the acceptance hereof by the City and the Authority and shall be valid and enforceable at the time of such acceptance.

[Remainder of Page Intentionally Blank]

20. Counterparts. This Bond Purchase Agreement may be executed in several counterparts, which together shall constitute one and the same instrument.

Very truly yours,

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By: \_\_\_\_\_  
Authorized Officer

ACCEPTED:

This March \_\_, 2018

CITY OF ELK GROVE, CALIFORNIA

By: \_\_\_\_\_  
[Name]  
[Title]

ELK GROVE FINANCE AUTHORITY

By: \_\_\_\_\_  
[Name]  
[Title]

**EXHIBIT A**

**MATURITY SCHEDULE**

**[\$[PRINCIPAL AMOUNT]]  
Elk Grove Finance Authority  
2018 Lease Revenue Bonds (Capital Facility)**

<b><u>Maturity Date (November 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>
	\$	%	%	

†

\$ \_\_\_\_\_ % Term Bonds due November 1, 20\_\_ Yield: \_\_\_\_\_%; Price: \_\_\_\_\_

**EXHIBIT B**

**FORM OF SUPPLEMENTAL BOND COUNSEL OPINION**

**EXHIBIT C**

**FORM OF DISCLOSURE COUNSEL OPINION**

**EXHIBIT D**

**FORM OF ISSUE PRICE CERTIFICATE**

**[\$[PRINCIPAL AMOUNT]  
Elk Grove Finance Authority  
2018 Lease Revenue Bonds  
(Capital Facility)**

The undersigned, Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “**Bonds**”).

1. **Bond Purchase Agreement.** On March \_\_, 2017 (the “**Sale Date**”), the Underwriter, the Issuer and the City executed a Bond Purchase Agreement (the “**Purchase Agreement**”) in connection with the sale of the Bonds. The Underwriter has not modified the Purchase Agreement since its execution on the Sale Date.
  
2. **Price.**
  - (a) As of the date of this Certificate, for each [Maturity] [of the \_\_\_\_\_ Maturities] of the Bonds, the first price at which at least 10% of [each] such Maturity of the Bonds was sold to the Public (the “**10% Test**”) was the respective price for such Maturity listed in **Schedule A** attached hereto.
  
  - (b) [**\*\*** With respect to each of the \_\_\_\_\_ Maturities of the Bonds:
    - (1) As of the date of this Certificate, the Underwriter has not sold at least 10% of the Bonds of these Maturities at any single price.
  
    - (2) As of the date of this Certificate, the Underwriter reasonably expects that the first sale to the Public of Bonds of these Maturities will be at or below the respective price or prices listed on the attached **Schedule A** as the “Reasonably Expected Sale Prices for Undersold Maturities.”
  
    - (3) The Underwriter will provide actual sales information (substantially similar to the information contained on **Schedule B**) as to the price at which the first 10% of each such Maturity (i.e., the Undersold Maturity or Maturities) is sold to the Public.
  
    - (4) On the date the 10% Test is satisfied with respect to all Maturities of the Bonds, the Underwriter will execute a supplemental certificate substantially in the form attached hereto as **Schedule C** with respect to any remaining Maturities for which the 10% Test has not been satisfied as of the Closing Date.\*\*]
  
3. **Defined Terms.**
  - (a) “**City**” means the City of Elk Grove.
  
  - (b) “**Issuer**” means the Elk Grove Finance Authority.



**SCHEDULE A  
TO  
ISSUE PRICE CERTIFICATE**

**Actual Sales Information as of Closing Date**

<u>Maturity/CUSIP</u>	<u>Coupon</u>	<u>Date Sold</u>	<u>Time Sold</u>	<u>Par Amount</u>	<u>Sale Price</u>
-----------------------	---------------	------------------	------------------	-------------------	-------------------

**\*\*Reasonably Expected Sales Prices for Undersold Maturities as of Closing Date**

<u>Maturity/CUSIP</u>	<u>Coupon</u>	<u>Par Amount</u>	<u>Offering Prices</u>
-----------------------	---------------	-------------------	------------------------

\*\*]



**[\*\*SCHEDULE B  
TO  
ISSUE PRICE CERTIFICATE**

**Actual Sales for Undersold Maturities as of the Closing Date**

<b><u>Maturity/CUSIP</u></b>	<b><u>Date Sold</u></b>	<b><u>Time Sold</u></b>	<b><u>Par Amount</u></b>	<b><u>Sale Price</u></b>
------------------------------	-------------------------	-------------------------	--------------------------	--------------------------

\*\*]

[\*\*SCHEDULE C  
TO  
ISSUE PRICE CERTIFICATE

SUPPLEMENTAL ISSUE PRICE CERTIFICATE OF UNDERWRITER

[\$[PRINCIPAL AMOUNT]  
Elk Grove Finance Authority  
2018 Lease Revenue Bonds  
(Capital Facility)

The undersigned, Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “**Bonds**”).

1. **Issue Price.**

- (a) The Underwriter sold at least 10% of the \_\_\_\_\_ Maturities of the Bonds to the Public at the price or prices shown on the Issue Price Certificate dated as of the Closing Date (the “**10% Test**”). With respect to each of the \_\_\_\_\_ Maturities of the Bonds, the Underwriter had not satisfied the 10% Test as of the Closing Date (the “**Undersold Maturities**”).
- (b) As of the date of this Supplemental Certificate, the Underwriter has satisfied the 10% Test with respect to the Undersold Maturities. The first price or prices at which at least 10% of each such Undersold Maturity was sold to the Public are the respective prices listed on **Exhibit A** attached hereto.

2. **Defined Terms.**

- (a) “**Issuer**” means the Elk Grove Finance Authority.
- (b) “**Maturity**” means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.
- (c) “**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.
- (d) “**Underwriter**” means (1) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (2) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1) of this paragraph to participate in the initial sale of the Bonds 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 Bonds to the Public).

3. The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the 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 Issuer with respect to certain of the representations set forth in the Federal Tax Certificate of the

Issuer dated [closing date] and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel, in connection with rendering its opinion that the interest on the Bonds 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 Issuer from time to time relating to the Bonds.

**STIFEL, NICOLAUS & COMPANY, INCORPORATED**

By: \_\_\_\_\_  
[Title]

By: \_\_\_\_\_  
[Title]

Dated: \_\_\_\_\_

**EXHIBIT A  
TO  
SUPPLEMENTAL ISSUE PRICE CERTIFICATE\*\***

## PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2018

NEW ISSUE - FULL BOOK-ENTRY

RATING: S&P: "\_\_\_\_"  
See "RATING"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds 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, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS."



\$ \_\_\_\_\_ \*

**ELK GROVE FINANCE AUTHORITY**  
**2018 Lease Revenue Bonds**  
**(Capital Facilities)**

Dated: Date of Delivery

Due: November 1, as shown on inside cover

**Authority for Issuance.** The bonds captioned above (the "Bonds") are being issued by the Elk Grove Finance Authority (the "Authority") under a resolution adopted by the Board of Directors of the Authority on March 14, 2018, and an Indenture of Trust dated as of April 1, 2018 (the "Indenture") by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). See "THE BONDS – Authority for Issuance."

**Use of Proceeds.** The Bonds are being issued to (i) to finance the acquisition, construction, improvement and/or equipping of certain public capital improvements, and (ii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

**Security for the Bonds.** Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of April 1, 2018, by and between the Authority, as lessor, and the City of Elk Grove (the "City"), as lessee (the "Lease"), consisting primarily of payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property, as further described in this Official Statement. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

**No Reserve Fund.** Neither the Authority nor the City will fund a reserve fund for the Bonds.

**Bond Terms; Book-Entry Only.** The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on May 1 and November 1 of each year, commencing on November 1, 2018, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General Provisions."

**Redemption.** The Bonds are subject to redemption prior to maturity. See "THE BONDS – Redemption."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

**MATURITY SCHEDULE**  
**(see inside cover)**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about April [ ], 2018.

[[Stifel logo]]

The date of this Official Statement is: \_\_\_\_\_, 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 will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

## MATURITY SCHEDULE\*

\$ \_\_\_\_\_ Serial Bonds  
(Base CUSIP†: \_\_\_\_\_)

<u>Maturity</u> (November 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
---------------------------------	-----------------------------------	--------------------------------	--------------	--------------	---------------

\$ \_\_\_\_\_ % Term Bonds due November 1, 20\_\_\_\_; Price: \_\_\_\_\_%; Yield: \_\_\_\_\_; CUSIP†: \_\_\_\_\_

† Copyright 2018, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City, the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

\* Preliminary; subject to change

**ELK GROVE FINANCE AUTHORITY  
CITY OF ELK GROVE  
SACRAMENTO COUNTY, CALIFORNIA**

**BOARD OF DIRECTORS OF THE AUTHORITY  
AND MEMBERS OF THE CITY COUNCIL**

Steve Ly, *President / Mayor*  
Darren Suen, *Vice President / Vice Mayor*  
Steven M. Detrick, *Director / Council Member*  
Patrick Hume, *Director / Council Member*  
Stephanie Nguyen, *Director / Council Member*

**AUTHORITY / CITY OFFICERS AND STAFF**

Laura S. Gill, *Administrator / City Manager*  
Jason Behrmann, *Assistant City Manager*  
Brad Koehn, *Authority Treasurer / Director of Finance and Administrative Services*  
Jason Lindgren, *Authority Secretary / City Clerk*  
Jonathan P. Hobbs, *General Counsel / City Attorney*

**SPECIAL SERVICES**

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
San Francisco, California

**MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc.  
Irvine, California

**TRUSTEE**

U.S. Bank National Association  
Seattle, Washington

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Limited Scope of Information.** The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions herein are subject to change without notice and neither 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. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

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.

**Stabilization of Prices.** In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.



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[Insert Regional Location Map]

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## OFFICIAL STATEMENT

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\$ \_\_\_\_\_ \*

**ELK GROVE FINANCE AUTHORITY**  
**2018 Lease Revenue Bonds**  
**(Capital Facilities)**

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

*Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."*

**Authority for Issuance.** The Elk Grove Finance Authority (the "**Authority**") is issuing the bonds captioned above (the "**Bonds**") under the following:

(a) the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the California Government Code (the "**Law**"),

(b) resolutions adopted by the Board of Directors (the "**Board**") of the Authority on March 14, 2018 (the "**Authority Resolution**"), and by the City Council (the "**City Council**") of the City of Elk Grove (the "**City**") on March 14, 2018 (the "**City Resolution**"), and

(c) an Indenture of Trust (the "**Indenture**") dated as of April 1, 2018, by and between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**").

**The Authority.** The Authority is a joint powers authority formed pursuant to a Joint Exercise of Powers Agreement dated as of July 13, 2005, between the City and the City of Elk Grove Parking Authority under Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements.

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\* Preliminary; subject to change.

**The City.** The City is located approximately 4 miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,750 to a January 1, 2017 population of 171,059 according to the State Department of Finance.

**Form of Bonds; Book-Entry Only.** The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company (“DTC”), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See “THE BONDS - Book-Entry Only System” and “APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

**Purpose of the Bonds.** The Bonds are being issued to (i) to finance the acquisition, construction, improvement and/or equipping of certain public capital improvements, and (ii) to pay the costs of issuing the Bonds. See “FINANCING PLAN.”

**Security for the Bonds and Pledge of Revenues.** Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on “Revenues” (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of April 1, 2018, between the Authority, as lessor, and the City, as lessee (the “Lease”), consisting primarily of payments (the “Lease Payments”) made by the City under the Lease. The Bonds are also secured by certain funds on deposit under the Indenture. See “SECURITY FOR THE BONDS.”

The City and the Authority will enter into a Site Lease dated as of April 1, 2018 (the “Site Lease”), under which the City will lease certain real property to the Authority, consisting of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) (the “Leased Property”), as described in “THE LEASED PROPERTY,” in return for an upfront Site Lease Payment. Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Leased Property back to the City in return for the annual Lease Payments. See “SECURITY FOR THE BONDS.”

One of the projects contemplated to be built using the proceeds of the Bonds is an animal shelter to be located at 10250 Iron Rock Way on 5.67 acres of land owned by the City. The animal shelter is planned to occupy approximately 2.8 acres of the site, while the remainder will continue to be used for the City’s corporation yard. Once construction of the animal shelter is completed, which the City anticipates will be some time in Fiscal Year 2018-19, and the value of the property is sufficient to meet the requirements for substitution under the Lease, the City expects to substitute the 2.8 acre site on which the animal shelter is located, together with the building itself, as the Leased Property under the Site Lease and the Lease, thereby releasing the properties initially serving as the Leased Property. See “THE LEASED PROPERTY” for a description of the currently Leased Property and the provisions related to substitution.

**No Reserve Fund.** Neither the Authority nor the City will fund a reserve fund for the Bonds.

**Redemption.** The Bonds are subject to redemption prior to their stated maturity dates. See “THE BONDS – Redemption.”

**Abatement.** The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the

Lease, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. To the extent proceeds of rental interruption insurance are available, Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See "SECURITY FOR THE BONDS – Abatement" and "BOND OWNERS' RISKS."

***Risks of Investment.*** Debt service on the Bonds is payable only from Lease Payments and other amounts payable by the City to the Authority under the Lease. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

NEITHER THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

## FINANCING PLAN

### The Project

The net proceeds of the sale of the Bonds will be deposited into a Project Fund, and available for use by the City to finance the acquisition, construction, improvement and/or equipping of public capital improvements. The City expects to use the amounts available in the Project Fund for (a) the construction of a new 21,850 square foot animal shelter, which will include an indoor facility for cats and other small mammals, indoor and outdoor kennels for dogs, veterinary space, and administration offices, and acquisition of land, furnishings, equipment and incidental expenses related thereto, and (b) the acquisition of a public park, and acquisition of land, furnishings, equipment and incidental expenses related thereto.

The site of the planned animal shelter is located at 10250 Iron Rock Way on 5.67 acres of land owned by the City. The animal shelter is planned to occupy approximately 2.8 acres of the site, while the remainder will continue to be used for the City's corporation yard. The site is located in Flood Zone X, described as areas outside of the 100 and 500-year flood plains (less than .2% annual chance flooding in any given year; flood insurance not required). Once construction of the animal shelter is completed, which the City anticipates will be some time in Fiscal Year 2018-19, and the value of the property is sufficient to meet the requirements for substitution under the Lease, the City expects to substitute the 2.8 acre site on which the animal shelter is located, together with the building itself, as the Leased Property under the Site Lease and the Lease, thereby releasing the properties initially serving as the Leased Property. See "THE LEASED PROPERTY" for a description of the currently Leased Property and the provisions related to substitution.

### Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Bonds are as follows:

<u>Sources:</u>	
Principal Amount of Bonds	\$
Plus (Less): Original Issue Premium (Discount)	
<i>TOTAL SOURCES</i>	\$
 <u>Uses:</u>	
Project Fund	\$
Costs of Issuance Fund <sup>(1)</sup>	
Underwriter's Discount	
<i>TOTAL USES</i>	\$

<sup>(1)</sup> Represents funds to be used to pay Costs of Issuance, which include legal fees, printing costs, rating agency fees and other costs of issuing the Bonds.

## THE LEASED PROPERTY

### The Leased Property

The Leased Property consists of the real property and facilities located at 8380 Laguna Palms Way (Police Department), 8400 Laguna Palms Way (Police and Council Chambers), and 8401 Laguna Palms Way (City Hall/Administrative Services Building) in the City.

The facilities located at 8380 and 8400 Laguna Palms Way are in the Civic Center Complex and consist of two single-story wood frame buildings constructed in 2001 and 2002, respectively, containing 24,607 square feet and 24,100 square feet, respectively. An additional 2,111 square feet of building space was added to the latter building in 2005.

The facility located at 8401 Laguna Palms Way is also in the Civic Center Complex, directly across the street from the two buildings described above. This facility consists of a single two-story wood frame building constructed in 2004 and containing 45,000 square feet.

The Leased Property is located in Flood Zone X, described as areas outside of the 100 and 500-year flood plains (less than .2% annual chance flooding in any given year; flood insurance not required). The City, based primarily on an estimate of the replacement cost derived for the purpose of its property insurance coverage (excluding the value of land and any discount for depreciation), estimates that the value of the Leased Property is at least equal to the principal amount of the Bonds, with the insured value of the Police Department equal to approximately \$6.7 million, the insured value of the Police and Council Chambers equal to approximately \$7.2 million and the insured value of the City Hall/Administrative Services Building equal to approximately \$11.9 million.

Once construction of the animal shelter is completed, which the City anticipates will be some time in Fiscal Year 2018-19, and the value of the property is sufficient to meet the requirements for substitution under the Lease, the City expects to substitute the 2.8 acre site on which the animal shelter is located, together with the building itself, as the Leased Property under the Site Lease and the Lease, thereby releasing the properties initially serving as the Leased Property. See "FINANCING PLAN – The Project," above.

***Additions and Improvements.*** Under the Lease, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property 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, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City may install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items will remain the sole property of the City and may be modified or removed by the City at any time, provided that the City must repair all damage to the Leased Property resulting from the installation, modification or removal of any such items.

## **Substitution and Release of Lease Property**

**Substitution.** Under the Lease, the City has the option at any time and from time to time, to substitute other real property (the "**Substitute Property**") for the Leased Property or any portion thereof (the "**Former Property**"), upon satisfaction of all of the conditions set forth in the Lease, which include (among others) the following:

- The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Site Lease, Lease and Assignment Agreement that adds the legal description of the Substitute Property and deletes therefrom the legal description of the Former Property.
- The City must certify in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to be important to the proper, efficient and economic operation of the City and to serve a proper governmental function of the City.
- The City must file with the Authority and the Trustee a written certificate of the City or other written evidence stating that the estimated fair rental value of the Leased Property following the substitution will be at least equal to the aggregate principal amount of the Bonds then outstanding, and that the useful life of the Substitute Property at least extends to the stated termination date of the Lease.

See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Upon the satisfaction of all the conditions precedent contained in the Lease, the Term of the Lease will end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this provision of the Lease.

**Release.** Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease (the "**Released Property**") provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such removal, which include (among others) the following:

- The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Lease, the Site Lease and the Assignment Agreement that removes the Released Property from the Site Lease, the Lease and the Assignment Agreement.
- The City must certify in writing to the Authority and the Trustee that the value of the property that remains subject to the Lease following such release is at least equal to the then outstanding principal amount of the Bonds, and the fair rental value of the property that remains subject to the Lease following such release is at least equal to the Lease Payments thereafter coming due and payable thereunder.

See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."



Upon the satisfaction of all the conditions precedent set forth in the Lease, the term of the Lease will end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

## THE BONDS

*This section provides summaries of the Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### **Authority for Issuance**

The Bonds are being issued under the Law, the Indenture, the Authority Resolution (which was adopted by the Board of the Authority on March 14, 2018), and the City Resolution (which was adopted by the City Council on March 14, 2018).

### **General Provisions**

***Bond Terms.*** The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

***Payments of Principal and Interest.*** Interest on the Bonds will be payable on May 1 and November in each year, beginning November 1, 2018 (each an “**Interest Payment Date**”).

*While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “– Book-Entry Only System” below.*

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

**Calculation of Interest.** Interest on the Bonds is payable from the Interest Payment Date next preceding the date of its authentication unless:

(a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

(b) a Bond is authenticated on or before 15 days prior to the first Interest Payment Date, in which event interest thereon will be payable from the Closing Date, or

(c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the Bonds will be computed on the basis of a 360-day year composed of 12 months of 30 days each.

**Record Date.** Under the Indenture, "Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

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

*The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM."*

**Bond Register.** The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

**Transfer.** Any Bond 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 a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond is or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

**Exchange.** The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series,

interest rate and maturity. The Trustee will require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The Authority will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

**Limitations.** The Trustee may refuse to transfer or exchange, under the provisions of the Indenture described above, any Bonds selected by the Trustee for redemption under the Indenture, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

## Redemption

**Optional Redemption.** The Bonds maturing on or before November 1, \_\_\_\_\_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after November 1, \_\_\_\_\_, are subject to redemption in whole, or in part at the election of the Authority among maturities on such basis as designated by the Authority and by lot within a maturity, at the option of the Authority, on any date on or after November 1, \_\_\_\_\_, from any available source of funds, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium.

**Mandatory Sinking Fund Redemption.** The Bonds maturing November 1, \_\_\_\_\_ (the "Term Bonds") are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on November 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments in integral multiples of \$5,000 as determined by the Authority (as set forth in a schedule provided by the Authority to the Trustee).

### Term Bonds Maturing November 1, \_\_\_\_\_

Sinking Fund Redemption Date (November 1)	Principal Amount To Be Redeemed
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**Extraordinary Mandatory Redemption.** The Bonds are subject to mandatory redemption prior to maturity in whole or in part, among maturities as determined by the Authority, on any date, at a redemption price equal to 100% of the principal amount thereof to be redeemed (plus accrued but unpaid interest to the redemption date), without premium, from Net Proceeds received under from amounts deposited in the Insurance and Condemnation Fund under the Indenture, and any other funds available under the Indenture for purposes of that fund.

**Selection of Bonds for Redemption.** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the

Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

**Notice of Redemption.** The Trustee will give notice of redemption of the Bonds by first class mail, postage prepaid, not less than 20 (or, if required by the Depository, 30) nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board.

Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

*However, while the Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the Authority and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.*

**Rescission of Redemption Notice.** The Authority has the right to rescind any notice of the redemption of Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

**Effect of Redemption.** When notice of redemption has been duly given as set forth in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue, those Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of those Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

### **Book-Entry Only System**

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal,

interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

## DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds.

Year Ending November 1	Principal	Interest	Total Debt Service
Total:			

## SECURITY FOR THE BONDS

*The principal of and interest on the Bonds are not a debt of the Authority or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture.*

*This section provides summaries of the security for the Bonds and certain provisions of the Indenture, the Lease and the Site Lease. See "APPENDIX A – Summary of Principal Legal Documents" for a more complete summary of the Indenture, the Lease and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### **Revenues; Pledge of Revenues**

***Pledge of Revenues and Other Amounts.*** Under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

***Definition of Revenues.*** "Revenues" are defined in the Indenture as follows:

(a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts the City is obligated to pay under the Lease as additional amounts of rental for the use and occupancy of the Leased Property if such additional amounts of rental are pledged or assigned for the payment of any bonds (other than the Bonds or Additional Bonds), notes, leases or other obligations, and (ii) any Additional Rental Payments; and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

### **Assignment to Trustee**

Under the Assignment Agreement, the Authority will transfer to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, repayment of advances, indemnification, and the payment of attorneys' fees). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will immediately be paid by the Authority to the Trustee. The Trustee is also entitled to and will, subject to the provisions of the Indenture regarding duties of the Trustee, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.



## **Allocation of Revenues by Trustee; Application of Funds**

***Deposit of Revenues into Bond Fund.*** All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such funds. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under the Indenture, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

***Transfers from the Bond Fund.*** On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

***Deposit to Interest Account.*** The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

***Deposit to Principal Account.*** The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date.

### ***Application of Accounts within Bond Fund.***

***Application of Interest Account.*** All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

***Application of Principal Account.*** All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

***Application of Redemption Fund.*** The Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under the Indenture.

## **Lease Payments**

***Requirement to Make Lease Payments.*** Under the Lease, subject to the provisions of the Lease concerning rental abatement and prepayment of Lease Payments, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts

specified in the Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in the Lease (defined as the 5th Business Day immediately preceding each Interest Payment Date).

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole under the Lease, and amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid hereunder.

The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee.

The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

**Rate on Overdue Lease Payments.** If the City fails to make any of the payments of Lease Payments required in the Lease, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding Bond.

**Fair Rental Value.** The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable 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 Authority and the City have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under the Lease, 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.

**Additional Rental Payments.** In addition to the Lease Payments, the City shall pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority:

- (a) All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;
- (b) All reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;
- (c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare

audits, financial statements, reports, opinions or provide such other services required under the Lease or the Indenture;

- (d) Amounts coming due and payable as Excess Investment Earnings in accordance with Lease; and
- (e) The reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease, the Bonds, the Indenture or any of the other documents contemplated thereby, or otherwise incurred in connection with the administration of the Lease.

### **Limited Obligation**

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE 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.

### **Additional Bonds**

In addition to the Bonds, the Authority may establish one or more other issues of Additional Bonds secured and payable on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with specific conditions set forth in the Indenture, which are conditions precedent to the issuance of such Additional Bonds and include the following:

(a) The Authority shall have entered into an amendment to the Lease, in and by which the City obligates itself in the manner provided in the Lease to make Lease Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City shall certify in writing, that such Lease Payments, as amended, in any year shall not exceed the then fair rental value of the Leased Property.

(b) If necessary to ensure that the Lease Payments payable after the issuance of Additional Bonds does not exceed the fair rental value of the Leased Property in any year, the Authority and the City shall have amended the Lease to add additional property to the Leased Property.

### **Source of Payments; Covenant to Budget and Appropriate Funds for Lease Payments**

The Lease Payments are payable from any source of available funds of the City, subject to the provisions of the Lease regarding abatement.

Under the Lease, the City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law and each and every public official of the City is required to take all actions 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 the Lease agreed to be carried out and performed by the City.

## **Abatement**

***Termination or Abatement Due to Eminent Domain.*** Under the Lease, 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 thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease will continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

***Abatement Due to Damage or Destruction.*** The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction.

If any such damage or destruction occurs, the Lease continues in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction.

## **Property Insurance**

***Liability and Property Damage Insurance.*** Under the Lease, the City is required to maintain or cause to be maintained throughout the Term of the Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns.

Such policy or policies must 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. Such policy or policies must

provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent.

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 self-insurance by the City, subject to the provisions of the Lease regarding self-insurance, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

**Casualty Insurance.** Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds.

Such insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, fire and such other hazards as are normally covered by such insurance, and must include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent.

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 agency 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 must be applied as provided in the Lease.

**Rental Interruption Insurance.** Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the casualty insurance requirements described above, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years.

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 agency 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, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as they become due and payable.

**Insurance Net Proceeds; Form of Policies.** Each policy of casualty insurance, rental interruption insurance and title insurance maintained under the Lease must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby.

The City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a certificate of the City stating that all policies of insurance required under the Lease are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any liability and property damage insurance maintained under the Lease is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

## **THE AUTHORITY**

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of July 13, 2005 (the "Joint Powers Agreement"), by and between the City and the City of Elk Grove Parking Authority. The Joint Powers Agreement was entered into pursuant to the provisions of Article 1 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). The governing body of the Authority consists of the same individuals who comprise the City Council of the City. The Authority was created for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. Pursuant to Article 1 of the Act, the Authority is qualified to assist in financing projects and certain public improvements and to issue bonds under Article 4 of the Act (being the Marks-Roos Local Bond Pooling Act of 1985).

The Authority has no taxing power. The Authority and the City are separate legal entities, and the debts and obligations of one such entity are not debts or obligations of the other entity.

## **THE CITY**

### **General**

The City is located approximately 4 miles south of the City of Sacramento along, and between both, Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,750 to a January 1, 2017 population of 171,059 according to the State Department of Finance. The City is the second largest incorporated city within Sacramento County.

Despite its close proximity to California's capital city, Elk Grove remained independent of Sacramento's growth and development as it expanded into adjoining countywide areas until the 1980's. Elk Grove had its start in agriculture and it is still a large part of the area's economy today, with vineyards, dairy and cattle and row crops; but, now, there are also high technology, professional service, commercial and retail enterprises. For example, Apple employs 2,500 people in the City, and many City residents work for the State or County in Sacramento. The City is located in the southern portion of Sacramento County and is between the cities of Sacramento and Stockton, straddling Highway 99 and Interstate 5. It is approximately equal driving distance from both the Bay Area and Sierra Mountain resorts.

The City has experienced substantial growth, particularly since its incorporation in 2000. Housing developments in the City represent a transition from previous land use for agricultural or grazing purposes toward a mixture of urban land uses, which transition has also occurred in other areas of the County. The City provides a variety of services to its residents which include public safety, highways and streets, public improvements, planning and zoning, general administration, transit, solid waste, and drainage.

Elk Grove's climate varies from low temperatures of 24 to 44 degrees to highs of 80 to 110 degrees. Average annual rainfall is 22 inches per year falling primarily from October through April. Elevation is 45 feet.

## City Government

The City has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of city business and the coordination of all City departments. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. Beginning in December 2012, the position of Mayor is an elected two-year office. The City budgeted for 338 full-time positions in fiscal year 2017-18. The City contracts for certain services within the public works, planning, building, trash hauling and transit departments. In addition, park services and fire services are provided to residents of the City by the Cosumnes Community Services District, not the City. The City established its own police department in October 2006, following the expiration of its contract with the County Sheriff. The City maintains two labor organizations: the Elk Grove Police Officers' Association, with 185 employees; and the Elk Grove Police Manager's Association, with nine employees. In both cases, the contracts between the City and the association expires on June 30, 2019.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Steve Ly, <i>Mayor</i>	December 2018
Darren Suen, <i>Vice-Mayor</i>	December 2020
Steven M. Detrick, <i>Council Member</i>	December 2020
Patrick Hume, <i>Council Member</i>	December 2018
Stephanie Nguyen, <i>Council Member</i>	December 2018

The City Manager is appointed by the City Council. Below are brief biographies of the City Manager and certain members of the City's professional staff:

*Laura S. Gill, City Manager.* Ms. Gill has served as City Manager since June 2008. Prior to this appointment, she served as the County of El Dorado's Chief Administrative Officer for five years. Prior to her work in El Dorado County, Ms. Gill served the City of Durham, North Carolina for more than 15 years, where she held a variety of positions. Ms. Gill obtained her Master's Degree in Public Administration from the University of North Carolina at Chapel Hill and her Bachelor's Degree from Wake Forest University in Winston-Salem, North Carolina.

*Jason Behrmann, Assistant City Manager.* Mr. Behrmann has more than 19 years of experience within local city governments. He was hired as the Assistant City Manager in July 2015. Prior to this role with the City, he served as the City Manager of the City of Galt, and previous to that, the Assistant City Manager of the City of Galt. Mr. Behrmann earned his Bachelor of Arts degree in Political Science from Brigham Young University. He holds a Master of Public Affairs degree from the School of Public and Environmental Affairs at Indiana University.

*Brad Koehn, Director of Finance and Administrative Services.* Mr. Koehn has served as Director of Finance and Administrative Services since March 2012. Before that, he served as Finance Director for the Town of Mammoth Lakes and, overall, has more than 25 years of experience in municipal finance. He received his Bachelor's Degree in Computer Science from California State University – Fullerton.



## Population

The City's population was approximately 171,059 on January 1, 2017, according to the California State Department of Finance's estimates. The following table shows the estimated population growth for the City, the County and the State of California for calendar years 2011 through 2017.

**TABLE 1**  
**City of Elk Grove**  
**City, County and State Population Growth<sup>(1)</sup>**  
**Calendar Years 2011 through 2017**

<b>Calendar Year</b>	<b>City of Elk Grove</b>	<b>% Change from Prior Period</b>	<b>County of Sacramento</b>	<b>% Change from Prior Period</b>	<b>State of California</b>	<b>% Change from Prior Year</b>
2011	154,663	--	1,429,653	--	37,536,835	--
2012	156,745	1.3%	1,440,456	0.8%	37,881,357	0.9%
2013	160,309	2.3	1,452,994	0.9	38,238,492	0.9
2014	162,511	1.4	1,466,309	0.9	38,572,211	0.9
2015	164,997	1.5	1,482,542	1.1	38,915,880	0.9
2016	168,118	1.9	1,496,619	0.9	39,189,035	0.7
2017	171,059	1.7	1,514,770	1.2	39,523,613	0.9

(1) As of January 1 of each year.

Source: State of California Department of Finance.

## Employment

The following table shows certain employment statistics for the City of Elk Grove Census Designated Place (CDP) and the County for calendar years 2011 through 2016. Full year figures for 2017 are not yet available.

**TABLE 2**  
**City of Elk Grove**  
**City and County Employment Statistics**  
**Calendar Years 2011 through 2016<sup>(1)</sup>**

<b>Year</b>	<b>City (Census Designated Place)</b>			<b>County</b>
	<b>Labor Force</b>	<b>Employed</b>	<b>Unemployment Rate</b>	<b>Unemployment Rate</b>
2011	76,800	69,500	9.5%	11.8%
2012	77,200	70,900	8.2	10.3
2013	77,400	72,100	6.9	8.7
2014	77,700	73,300	5.6	7.2
2015	78,600	75,000	4.6	5.9
2016	80,100	76,800	4.1	5.4

(1) Not seasonally adjusted. Figures represent the 12-month average for each such year.

Source: State of California, Employment Development Department.

The unemployment rate in the Sacramento – Arden – Arcade – Roseville Metropolitan Statistical Area (“MSA”) was 3.8 percent in December 2017, up from a revised 3.7 percent in November 2017, and below the year-ago estimate of 4.8 percent. This compares with an unadjusted unemployment rate of 4.2 percent for California and 3.9 percent for the nation during the same period. The unemployment rate in December 2017 was 3.6 percent in El Dorado

County, 3.1 percent in Placer County, 3.9 percent in Sacramento County, and 4.6 percent in Yolo County.

The following table summarizes the civilian labor force in the MSA for the calendar years 2012 through 2016. These figures are metropolitan statistical area statistics including Sacramento, El Dorado, Placer and Yolo Counties, and may not necessarily accurately reflect employment trends in the City. Full year figures for 2017 are not yet available.

**TABLE 3A**  
**City of Elk Grove**  
**Sacramento-Arden-Arcade-Roseville MSA**  
**Annual Average Employment by Industry**  
**Calendar Years 2012 through 2016**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Civilian Labor Force</b> <sup>(1)</sup>	1,049,500	1,046,800	1,049,200	1,060,200	1,073,300
Employment	941,100	956,100	974,100	998,100	1,017,300
Unemployment	108,300	90,800	75,100	62,100	56,000
Unemployment Rate	10.3%	8.7%	7.2%	5.9%	5.2%
<b>Wage and Salary Employment</b> <sup>(2)</sup>					
Agriculture	8,600	8,900	9,200	9,300	9,200
Mining and Logging	400	500	500	600	500
Construction	38,400	43,300	45,400	49,900	54,500
Manufacturing	33,900	34,100	35,400	36,300	36,200
Wholesale Trade	25,200	25,000	24,500	24,600	25,500
Retail Trade	91,800	93,800	95,300	97,500	100,600
Transportation, Warehousing and Utilities	22,000	22,900	23,600	24,600	25,900
Information	15,600	14,800	13,900	14,200	13,800
Finance and Insurance	35,700	36,300	35,500	37,100	37,500
Real Estate and Rental and Leasing	12,500	13,100	13,400	13,900	14,400
Professional and Business Services	111,100	114,600	118,200	119,700	128,600
Educational and Health Services	125,600	130,700	134,300	140,300	145,900
Leisure and Hospitality	84,500	88,700	91,800	94,900	99,800
Other Services	28,600	29,000	30,200	30,800	31,200
Federal Government	13,700	13,500	13,600	13,700	14,100
State Government	108,200	109,900	113,400	115,400	116,600
Local Government	99,600	99,200	100,800	102,900	104,600
Total, All Industries <sup>(3)</sup>	855,300	878,200	898,800	925,400	958,700

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table provides monthly labor force data for cities and census designated places (CDP) in the County for December 2017. These numbers are preliminary and the data is not seasonally adjusted.

**TABLE 3B**  
**City of Elk Grove**  
**Monthly Labor Force Data for Cities and Census Designated Places (CDP)**  
**December 2017 - Preliminary**  
**(Data Not Seasonally Adjusted)**

Area Name	Labor Force	Employment	Unemployment Number	Unemployment Rate	Census Ratios	
					Employment	Unemployment
Sacramento County	704,500	677,100	27,400	3.9%	1.000000	1.000000
Arden Arcade CDP	44,900	42,700	2,200	4.9%	0.063006	0.080844
Carmichael CDP	31,000	29,700	1,300	4.3%	0.043831	0.048219
Citrus Heights city	44,100	42,300	1,800	4.1%	0.062455	0.065958
<b>Elk Grove CDP</b>	<b>81,100</b>	<b>78,700</b>	<b>2,400</b>	<b>3.0%</b>	<b>0.116285</b>	<b>0.088137</b>
Fair Oaks CDP	16,000	15,400	600	3.7%	0.022709	0.021471
Florin CDP	21,000	19,800	1,200	5.7%	0.029260	0.043767
Folsom city	36,700	35,800	900	2.5%	0.052893	0.033520
Foothill Farms CDP	15,600	15,000	600	3.7%	0.022136	0.020965
Galt city	11,200	10,700	500	4.6%	0.015836	0.018845
Gold River CDP	3,700	3,600	100	1.9%	0.005387	0.002556
Isleton city	300	300	0	6.7%	0.000470	0.000856
La Riviera CDP	5,900	5,700	200	3.4%	0.008404	0.007373
North Highlands CDP	18,400	17,600	700	4.0%	0.026044	0.026548
Orangevale CDP	17,700	17,000	600	3.6%	0.025146	0.022991
Rancho Cordova City	34,300	32,800	1,500	4.3%	0.048496	0.054027
Rancho Murieta CDP	2,500	2,500	0	1.5%	0.003676	0.001354
Rio Linda CDP	6,400	6,200	200	3.3%	0.009202	0.007703
Rosemont CDP	12,000	11,500	500	4.4%	0.016916	0.019069
Sacramento city	232,700	223,100	9,600	4.1%	0.329487	0.349736
Vineyard CDP	12,900	12,500	400	2.9%	0.018487	0.013533
Walnut Grove CDP	600	500	100	14.7%	0.000729	0.003121
Wilton CDP	2,500	2,500	0	1.7%	0.003660	0.001578

(1) CDP is "Census Designated Place" - a recognized community that was unincorporated at the time of the 2011-2015 5-Year American Community Survey (ACS). Although the City was incorporated in 2000, data continues to be reflected on the basis of the Elk Grove CDP.

Source: State of California Employment Development Department.

The following table shows the top ten employers within the City.

**TABLE 4**  
**City of Elk Grove**  
**Top Ten Employers**  
**Fiscal Year 2016-17**

<u>Company</u>	<u>No. of Employees</u>	<u>% of Total City Employment</u>
Elk Grove Unified School District <sup>(1)</sup>	5,830	7.28%
Apple Computer Distribution Center	2,500	3.12
CA Correctional Health Care Services <sup>(2)</sup>	1,036	1.29
Cosumnes Community Services District	775	0.97
Walmart Stores (3 locations)	615	0.77
Kaiser Permanente (2 locations)	471	0.59
Raley's/Bel Air Markets	425	0.53
City of Elk Grove	314	0.39
Alldata LLC	310	0.39
Nissan of Elk Grove	289	0.36
<b>Total Top Ten Employers</b>	<b>12,565</b>	<b>15.69%</b>

(1) Represents employees of the District located throughout the State, not necessarily all of whom are located in the City.

(2) State of California employees.

Source: City of Elk Grove audited financial statements for fiscal year 2016-17.

### Income Statistics

**Per Capita Personal Income.** The following table shows the annual per capita personal income for the County MSA, the State and the United States for calendar years 2012 through 2016. Information is not yet available for 2017.

**TABLE 5A**  
**Sacramento County, California and the United States**  
**Per Capita Personal Income<sup>(1)</sup>**  
**Calendar Years 2012 through 2016**

<u>Year</u>	<u>County MSA</u>	<u>State</u>	<u>U.S.</u>
2012	\$43,682	\$47,307	\$41,358
2013	44,536	48,340	43,715
2014	45,938	50,072	45,448
2015	47,932	53,589	46,738
2016	50,219	55,681	48,043

(1) Per capita personal income is the total personal income divided by the total midyear population estimates of the U.S. Bureau of the Census.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**Effective Buying Income.** The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2012 through 2016. "Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Effective buying income data is not yet available for calendar year 2017.

**TABLE 5B  
CITY OF ELK GROVE, SACRAMENTO COUNTY,  
STATE OF CALIFORNIA and the united states  
Effective Buying Income  
As of January 1, 2012 through 2016**

<b>Year</b>	<b>Area</b>	<b>Total Effective Buying Income (000s' Omitted)</b>	<b>Median Household Effective Buying Income</b>
2012	City of Elk Grove	\$3,484,185	\$59,391
	Sacramento County	28,956,570	43,682
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Elk Grove	\$3,630,230	\$60,163
	Sacramento County	29,591,998	44,536
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Elk Grove	\$3,807,333	\$63,483
	Sacramento County	30,629,048	45,938
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Elk Grove	\$3,971,065	\$65,589
	Sacramento County	33,033,628	47,932
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Elk Grove	\$4,386,894	\$68,901
	Sacramento County	35,596,193	50,219
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

*Source: The Nielsen Company Inc.*

## Construction Activity

The following table summarizes the number of construction permits issued from fiscal years 2012-13 through 2016-17.

**TABLE 6**  
**City of Elk Grove**  
**Number of Construction Permits**  
**Fiscal Years 2012-13 through 2016-17<sup>(1)</sup>**  
**(Valuation in Thousands)**

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Type of Permit:					
Residential	\$53,815.1	\$85,455.9	\$112,671.7	\$116,126.4	\$63,238.6
Non-Residential	<u>6,772.0</u>	<u>11,940.9</u>	<u>14,704.7</u>	<u>21,126.3</u>	<u>20,093.4</u>
Total	\$60,587.1	\$97,396.8	\$127,376.4	\$137,252.7	\$83,332.0
 Total Dwelling Unit Permits	 334	 435	 581	 625	 324

*Source: City of Elk Grove.*

## Community

*Education.* The City is served by the Elk Grove Unified School District (EGUSD), the fifth largest school district in California and the second most diverse. EGUSD is also the City's largest employer. It covers 330 square miles, or about one-third of Sacramento County, with territory both within and outside the City. The City is also served by several colleges and universities. The Los Rios Community College District is comprised of four campuses in Sacramento County and includes the Cosumnes River College, whose main campus located near the City's northern boundary. It also houses a satellite campus in the southern area of the City. California Northstate University College of Medicine, as well as several other for-profit colleges and universities, maintain campuses in Elk Grove. Finally, California State University, Sacramento is located 11 miles north, in the City of Sacramento.

*Transportation.* The City has convenient access to two major highways—Interstate 5 and Highway 99, providing easy access to highway transportation routes. Rail transportation is also available in Sacramento, 15 miles north of the City. Public transportation is provided by the City's transit system, e-tran. The Sacramento International Airport is located approximately 26 miles north of the City off Interstate 5 and provides major carrier airlines.

*Recreation.* Elk Grove has 94 parks, totaling more than 690 acres of landscaping and recreational amenities, including picnic areas, fitness areas, softball and soccer fields, swim centers and a skate park. All of these parks and park-related amenities are owned and operated by the Cosumnes Community Services District, not the City. Additional local attractions include a network of more than 27 miles of pedestrian and bicycle trails that feature wetlands, open space, green belts, creeks and wildlife habitats; Stone Lakes Refuge, which is located outside the western edge of the City and is a dedicated National Wildlife Refuge comprised of 3,000 acres along the Pacific Flyway; and Cosumnes River Preserve, on the southern edge of the City, a riparian habitat running along the Cosumnes River.

## CITY FINANCIAL INFORMATION

### **Budgetary Process and Administration**

The City Council adopts a budget annually for all governmental fund types. The City adheres to particular procedures in the budgeting process. In May, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. The operating budget includes proposed expenditures and the means of financing them. Public meetings are conducted to obtain taxpayer comments. Budgets are adopted by City Council resolution for the General Fund, Special Revenue Funds and Capital Project Funds. Budget adjustments from reserves and between funds are approved by the City Council and budget transfers within fund or department are approved by the City Manager. Expenditures may not legally exceed budgeted appropriations at the fund level for the General Fund and the fund level for all other funds without the City Council's approval. Budgets are adopted on a basis consistent with generally accepted accounting principles for all funds, except capital projects reported in the Capital Project Funds, which are budgeted on a project length basis.

Mid-year reviews of an adopted budget are conducted annually and adjustments and amendments are made thereto and approved by the City Council.

### **City Budgets for Fiscal Years 2016-17 through 2017-18**

The City's budget for fiscal year 2017-18 was adopted by the City Council on June 14, 2017. A complete copy of the City's adopted fiscal year 2017-18 budget can be obtained from the City's Finance Department or the City's website at [www.elkgrovecity.org](http://www.elkgrovecity.org). *The information on this website is not incorporated by reference into this Official Statement.*

The table below shows the City's budget and actual results for General Fund revenues and expenditures for fiscal year 2016-17 and the adopted budget for fiscal year 2017-18. Actual results for fiscal year 2017-18 could vary significantly from the adopted budget for such year.

**TABLE 7**  
**City of Elk Grove**  
**General Fund Budget Summary**  
**Fiscal Years 2016-17 through 2017-18**

	2016-17 Revised Budget	2016-17 Audited	2017-18 Adopted Budget <sup>(1)</sup>
<b>Revenues</b>			
Taxes <sup>(2)</sup>	\$45,390,000	\$59,397,544	\$46,507,788
Licenses, Fees and Permits	449,400	607,404	285,500
Intergovernmental <sup>(2)</sup>	11,527,000	442,673	12,351,200
Fines and Forfeitures	1,082,930	354,504	928,000
Charges for Services	--	100,675	--
Use of Money and Property	--	29,324	--
Other Revenue	305,220	947,939	2,765,090
<b>Total Revenues</b>	<b>\$58,754,550</b>	<b>\$61,880,063</b>	<b>\$62,837,578</b>
<b>Expenditures</b>			
General Government	\$22,698,579	\$23,312,594	\$23,914,168
Public Safety	37,716,063	35,218,555	39,413,486
Community Development	955,362	1,294,598	1,157,397
Capital Outlay	1,357,500	488,306	831,922
Appropriation for Land Acq.	--	--	600,000
<b>Total Expenditures</b>	<b>\$62,727,504</b>	<b>\$60,314,053</b>	<b>\$65,916,973</b>
<b>Other Financing Sources (Uses)</b>			
Transfers In <sup>(3)</sup>	\$6,493,118	\$6,902,636	\$5,349,834
Transfers Out	(2,877,507)	(2,093,362)	(2,512,581)
<b>Total Other Financing Sources</b>	<b>\$3,615,611</b>	<b>\$4,809,274</b>	<b>\$2,837,253</b>
<b>Net Change in Fund Balances</b>	<b>(357,343)</b>	<b>6,375,284</b>	<b>(242,142)</b>
<b>Fund Balances at Beginning of Year</b>	<b>\$17,427,146</b>	<b>\$27,941,045</b>	<b>\$18,901,473</b>
<b>Fund Balances at End of Year</b>	<b>\$17,069,803</b>	<b>\$34,316,329</b>	<b>\$18,659,331</b>

(1) As adopted on June 14, 2017. No updates of the budget have occurred and assumptions and expectations are as of the date of the budget. The City anticipates building a new animal shelter from the proceeds of the Bonds. See "FINANCING PLAN." The debt service and operating costs are a new obligation of the City, and services provided have been incorporated into the City's budget plan.

(2) Property tax in lieu of vehicle license fees (VLF) are included within "Taxes" for 2016-17 revised budget and 2016-17 audited financials, while they are reflected as Intergovernmental in the 2017-18 adopted budget.

(3) The sum of Total Revenues and Transfers In equals \$68.2 million, which is the Total General Fund Revenue in the adopted budget for fiscal year 2017-18. Transfers In includes revenue such as special taxes for police services and cost allocation charges to non-General Fund departments.

Source: City of Elk Grove 2017-18 Budget.

Property taxes are considered a stable revenue source for long-term dependability. In the County, steady growth averaging 5% is the norm. Based on the City's estimates, property taxes are assumed to increase by 5% for fiscal year 2017-18. See "– Property Taxes" for additional information, including information concerning the City's tax sharing agreement with the County. Positive funding impacts on revenues are expected as the City's share of property taxes increases and the cost of revenue neutrality payments by the City decreases.



Sales tax revenue is the City's largest single source for general operations, budgeted at 38% of General Fund revenue in fiscal year 2017-18. Sales tax revenues hit an all-time high in fiscal year 2016-17 and taxable sales are projected to increase by 1.7% in fiscal year 2017-18 and 5.4% in fiscal year 2018-19 due to the arrival of a new Costco in the City (the building permit for which was issued in December 2017).

After the mid-year review of the adopted budget for fiscal year 2017-18, the City is currently projecting to realize \$70.5 million in General Fund revenues for fiscal year 2017-18, which is approximately \$2.3 million over budget. During the mid-year review, General Fund expenditures were also projected to be below the adopted budget, but have been realigned given the positive outlook. The City will be adding three new staff positions and making an additional accelerated payment to its unfunded liability to CalPERS of \$900,000. See "–Pension Plans" herein. However, even with the expenditures realignment, expenditure savings are estimated at approximately \$1.5 million. The foregoing are anticipated results only, and do not modify the actual fiscal year 2017-18 budget.

The City budget anticipates that the City will make a modest contribution of approximately \$358,000 to the Fund Balance Reserve in fiscal year 2017-18. Additionally, for fiscal year 2017-18 the City is appropriating \$600,000 from the Fund Balance Reserve to purchase land used to stimulate economic development. As of July 1, 2018, the budgeted estimated contingency reserve as a percentage of adjusted general fund appropriation of \$66,801,054 equals 27.9%, or approximately \$18.6 million. Because of the projected revenue surplus and expenditure savings described above, the City could experience an over \$4.0 million increase in Fund Balance in fiscal year 2017-18.

The Wilton Rancheria Indian Tribe is proposing to build a resort and casino in the City. There can be no assurance that the project will ultimately come to fruition. However, the City has a memorandum of Understanding (MOU) agreement with the tribe that would provide revenue to the City over and above the anticipated increased cost of new service levels necessary to serve the new resort and casino.

## **Financial Statements**

Set forth in the following tables are the City's General Fund balance sheets and statements of revenues, expenditures and changes in General Fund Balance for fiscal years 2012-13 through 2016-17, which are based on the City's audited financial statements. The balance sheets and statements presented in this Official Statement are subject to the various notes attached to the City's financial statements for the respective years. The City's Comprehensive Annual Financial Report ("CAFR") for fiscal year ended June 30, 2017, which includes the City's 2016-17 audited financial statements, is set forth in Appendix B.

**TABLE 8**  
**City of Elk Grove**  
**General Fund Balance Sheets**  
**Fiscal Years 2012-13 through 2016-17**

	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Assets</b>					
Cash and investments	\$18,213,512	\$20,970,131	\$19,984,875	\$17,699,289	\$25,277,813
Accounts receivable, net	787,548	775,983	675,599	327,200	426,481
Taxes receivable	993,037	1,008,688	591,336	7,944,605	4,975,464
Interest receivable, net	4,389	--	--	6,299	37,754
Due from other government agencies	3,807,365	3,922,099	4,440,838	1,929,235	1,731,807
Due from other funds <sup>(1)</sup>	1,882,009	1,140,422	1,036,777	69,740	33,705
Prepaid items and other assets	10,002	--	--	--	--
Advances to other funds	--	--	4,750,000	4,882,045	3,510,730
<b>Total Assets</b>	<b>\$25,697,862</b>	<b>\$27,817,323</b>	<b>\$31,479,425</b>	<b>\$32,858,413</b>	<b>\$35,993,754</b>
<b>Liabilities</b>					
Accounts payable	\$412,918	\$601,590	\$722,508	\$1,292,097	\$887,862
Accrued salaries and benefits	1,376,685	1,633,152	1,671,129	1,980,095	724,788
Due to other funds	--	--	--	--	--
Retention payable	20,210	20,210	20,210	10,541	13,422
Refundable deposits	61,560	57,780	3,102	--	--
Advances from other funds	--	904,418	6,800,984	1,627,745	--
<b>Total Liabilities</b>	<b>\$1,871,373</b>	<b>\$3,217,150</b>	<b>\$9,217,933</b>	<b>\$4,910,478</b>	<b>\$1,626,072</b>
<b>Deferred Inflow of Resources</b>					
Unavailable revenue	--	--	2,729	6,890	51,353
<b>Fund Balances</b>					
Nonspendable	--	--	--	--	3,510,730
Restricted	--	--	--	--	--
Committed <sup>(2)</sup>	18,950,057	18,604,618	19,227,947	20,096,678	21,000,138
Assigned	4,876,432	--	1,649,271	346,141	357,858
Unassigned	--	5,995,555	1,381,845	7,498,226	9,447,603
<b>Total Fund Balance</b>	<b>\$23,826,489</b>	<b>\$24,600,173</b>	<b>\$22,259,063</b>	<b>\$27,941,045</b>	<b>\$34,316,329</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$25,697,862</b>	<b>\$27,817,323</b>	<b>\$31,479,725</b>	<b>\$32,858,413</b>	<b>\$35,993,754</b>

(1) "Due from other funds" entry shows year-end short term loan to funds with negative cash at June 30. Volatility is due to cash flow variances at year end and grant receivables.

(2) Committed line item includes the City's Fund Balance Reserve.

Source: City Finance Department and City of Elk Grove audited financial statements for fiscal years 2012-13 through 2016-17.

**TABLE 9**  
**City of Elk Grove**  
**Statements of Revenues, Expenditures and Changes in General Fund Balance**  
**Fiscal Years 2012-13 through 2016-17**

	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Revenues</b>					
Taxes <sup>(1)(2)</sup>	\$37,185,056	\$38,797,684	\$42,218,867	\$46,826,691	\$59,397,544
Licenses, fees & permits	734,535	497,519	553,449	602,734	607,404
Intergovernmental <sup>(2)</sup>	8,915,895	9,634,614	10,712,008	11,299,972	442,673
Fines and forfeitures	1,525,078	1,319,758	488,299	387,185	354,504
Charges for services	263,943	208,026	154,515	138,080	100,675
Use of money and property	288,244	112,036	147,983	381,776	29,324
Other revenue	459,128	356,980	1,352,612	970,243	947,939
<b>Total Revenues</b>	<b>\$49,371,879</b>	<b>\$50,926,617</b>	<b>\$55,627,733</b>	<b>\$60,606,681</b>	<b>\$61,880,063</b>
<b>Expenditures</b>					
Current:					
General government <sup>(1)(3)</sup>	\$19,017,525	\$18,789,272	\$19,891,965	\$19,791,477	\$23,312,594
Public safety	29,794,831	31,855,800	34,050,308	34,555,397	35,218,555
Community development	1,122,603	1,213,917	1,206,319	1,609,940	1,294,598
Capital outlay	983,738	151,300	4,893,610	917,444	488,306
<b>Total expenditures</b>	<b>\$50,918,697</b>	<b>\$52,010,289</b>	<b>\$60,042,202</b>	<b>\$57,054,258</b>	<b>\$60,314,053</b>
Excess (deficiency) of revenues over (under) expenditures	(1,546,818)	(1,083,672)	(4,414,469)	3,552,423	1,566,010
<b>Other financing sources(uses)</b>					
Transfers in	2,435,555	5,115,048	4,491,732	5,533,479	6,902,636
Transfers out	(3,582,353)	(3,257,692)	(2,418,373)	(3,403,920)	(2,093,362)
Total other fin. sources (uses)	<u>(1,146,798)</u>	<u>1,857,356</u>	<u>2,073,359</u>	<u>2,129,559</u>	<u>4,809,274</u>
Net change in fund balance	(2,693,616)	773,684	(2,341,110)	5,681,982	6,375,284
Fund balance, beginning as restated	26,520,105	23,826,489	24,600,173	22,259,063	27,941,045
Fund balance, ending	<b>\$23,826,489</b>	<b>\$24,600,173</b>	<b>\$22,259,063</b>	<b>\$27,941,045</b>	<b>\$34,316,329</b>

(1) Under the Revenue Neutrality Agreement between the City and the County of Sacramento entered into at incorporation, the City receives reduced property tax receipts for 25 years, ending in fiscal year 2024-25, consisting of 85% reduction in fiscal years 2005-06 through 2009-10, 80% reduction in 2010-11 through 2013-14, 75% reduction 2014-15 through 2017-18, 70% reduction in 2018-19, and a 10% less reduction each year until 2025-26 when the City retains 100%. See “-Property Taxes – Tax Sharing Agreement with County.” The City records the property tax receipts at a gross amount and records the amount withheld by the County as a General Government expense.

(2) Property Tax in Lieu of Vehicle License Fee (VLF) was included in Intergovernmental until fiscal year 2016-17 when it was moved to Property Taxes.

(3) A portion of the debt service on the existing lease revenue bonds is classified and paid for as a General government expense under the General Fund but such debt service is paid out of specific debt service funds and not the General Fund. Approximately \$1.6 million of increase in General government expenditures from 2015-16 to 2016-17 due to accelerated payment to CalPERS. See “-Pension Plans.”

Source: City Finance Department and City of Elk Grove audited financial statements for fiscal years 2012-13 through 2016-17.

## Revenues Available for Lease Payments

The City will make Lease Payments on each Interest Payment Date from moneys held in the General Fund that are available for general government purposes. The following table shows such revenues received by the City for fiscal years 2014-15 through 2016-17. Property tax revenues shown are gross of the amounts paid by the City to the County under the Revenue Neutrality Agreement. See "Property Taxes – Tax Sharing Agreement With County" for a details about the Revenue Neutrality Agreement and amount of payments.

**TABLE 10**  
**City of Elk Grove**  
**General Fund Revenues by Revenue Source**  
**Fiscal Years 2014-15 through 2016-17**

Category	2014-15		2015-16		2016-17	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
Property Tax <sup>(1) (2)</sup>	\$10,748,517	25.5%	\$11,443,260	24.4%	\$23,670,228	39.9%
Sales Tax <sup>(2)</sup>	22,151,051	52.5	25,208,475	53.8	25,535,498	43.0
Utility Users' Tax	5,672,565	13.4	6,082,284	13.0	5,681,559	9.6
Transient Occupancy Tax	1,540,570	3.6	1,851,319	4.0	2,130,201	3.6
Property transfer tax	710,321	1.7	757,489	1.6	844,471	1.4
Franchise tax and fees	1,395,843	3.3	1,483,864	3.2	1,535,587	2.6
<b>Total<sup>(3)</sup></b>	<b>\$42,218,867</b>	<b>100.0%</b>	<b>\$46,826,691</b>	<b>100.0%</b>	<b>\$59,397,544</b>	<b>100.0%</b>

(1) Subject to the Revenue Neutrality Agreement. See "–Property Taxes" herein.

(2) Property Tax in Lieu of Vehicle License Fee (VLF) was included in Intergovernmental Revenue/Sales Tax until fiscal year 2016-17, when it was moved to Property Tax. For Fiscal Year 2017-18, estimated net property taxes, including property documentary transfer tax and VLF and net of the revenue neutrality deduction amount, was equal to approximately \$17.9 million, or 26.2% of General Fund revenues.

(3) Totals may not add due to rounding.

Source: City of Elk Grove Finance Department.

## Sales Taxes

Sales and use taxes represent the largest source of tax revenue to the City (approximately 37% of the governmental funds tax revenues in fiscal year 2017-18). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State. The City received approximately \$25.5 million in sales tax revenue for fiscal year 2016-17 and has budgeted to receive \$25.9 million in sales tax revenue for fiscal year 2017-18.

The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by the CDTFA) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "Sales Tax Law"), as shown in the following table.

Taxable transactions in the City for fiscal year 2017-18 are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**TABLE 11**  
**City of Elk Grove**  
**Sales Tax Rate**  
**Effective October 1, 2017**

Statewide Rate	6.00%
Sacramento County Rate	0.25
City Direct Rate	1.00
Sacramento Transportation Authority	<u>0.50</u>
Total	7.75%

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The sales tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization’s Publication No. 61 (February 2017) entitled “Sales and Use Taxes: Exemptions and Exclusions,” which can be found on the State Board of Equalization’s website at <http://www.boe.ca.gov/>. *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.*

**Sales Tax Collection Procedures.** Collection of the sales and use tax is administered by the California Department of Tax and Fee Administration (the “CDTFA”). This process was formerly administered by the State Board of Equalization. The Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017, restructured the State Board of Equalization and separated its functions among three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The State Board of Equalization will continue to perform the duties assigned to it by the state Constitution, while all other duties will be transferred to the newly established CDTFA and the Office of Tax Appeals. CDTFA will handle most of the taxes and fees previously collected by the State Board of Equalization, including sales and use tax.

According to the CDTFA, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the CDTFA first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The CDTFA disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the CDTFA under a contract with any city, city and county, or county are required to be transmitted by the CDTFA to such city, city and county, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the CDTFA projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the CDTFA's quarterly projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The CDTFA receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

**History of Sales Tax Revenues and Taxable Transactions.** Summaries of historic sales tax revenues (including in lieu sales tax revenues) and a break out of sales by type of business within the City are shown in the following tables.

**TABLE 12**  
**City of Elk Grove**  
**Sales Tax Revenues<sup>(1)</sup>**  
**Fiscal Years 2006-07 through 2016-17**

<b>Fiscal Year</b>	<b>Sales Tax Revenues</b>	<b>In-Lieu Sales Tax</b>	<b>Total</b>	<b>% Change</b>
2006-07	\$13,484,567	\$5,348,814	\$18,833,381	--
2007-08	14,430,375	4,688,688	19,119,063	1.5%
2008-09	11,411,206	4,869,854	16,281,060	(14.8)
2009-10	10,942,740	2,965,668	13,908,408	(14.6)
2010-11	11,797,182	3,785,803	15,582,985	12.0
2011-12	13,169,204	3,955,955	17,125,159	9.9
2012-13	13,708,848	4,710,293	18,419,141	7.6
2013-14	15,365,390	4,845,534	20,210,924	9.7
2014-15	16,567,321	5,583,730	22,151,051	9.6
2015-16	20,504,422	4,704,053	25,208,475	13.8
2016-17	25,535,498	--	25,535,498	1.3

(1) In-Lieu Sales Tax was eliminated in fiscal year 2016-17 and these amounts for Fiscal Years 2012-13 through 2015-16. The final true-up payment was received in fiscal year 2015-16 in the amount of \$2,950,541, accounting for 13.3% of that year's increase.

Source: City of Elk Grove Finance Department.

**TABLE 13**  
**City of Elk Grove**  
**Taxable Transactions**  
**Fiscal Years 2011-12 through 2015-16**  
**(In Thousands)**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16<sup>(1)</sup></u>
Apparel stores	\$59,538	\$65,521	\$72,656	\$76,039	\$79,512
General merchandise stores	148,476	157,202	178,709	184,822	187,807
Food stores	68,344	64,032	60,816	64,028	65,455
Eating and drinking places	159,341	175,995	187,234	201,084	228,559
Building Materials	70,740	63,726	67,783	63,315	76,102
Auto dealers and auto supplies <sup>(2)</sup>	414,609	492,184	576,870	637,312	736,551
Service stations	184,353	201,937	202,295	202,900	175,264
Other retail stores	308,742	318,666	276,132	285,513	294,492
All other outlets	<u>279,687</u>	<u>297,654</u>	<u>377,509</u>	<u>441,461</u>	<u>474,317</u>
Total All Outlets	\$1,693,830	\$1,836,917	\$2,000,004	\$2,156,474	\$2,318,070

(1) Most current information available.

(2) The Elk Grove Auto Mall is a major contributor to sales tax revenue (for example, representing 35% in a recent quarter).

Source: California State Board of Equalization Statistical Research and Consulting Division.

### Property Taxes

Property taxes (including property tax in lieu of vehicle license fee (VLF)) represent the other major source of tax revenue to the City (approximately 37.0% of General Fund revenues in fiscal year 2017-18). However, after adjusting the City's property tax revenue for payments owed to the County pursuant to the Revenue Neutrality Agreement, described below, net property taxes (including VLF) amounted to approximately 25.9% of the City's General Fund revenues for fiscal 2016-17. See Table 10 above for additional details on General Fund revenues.

**Tax Sharing Agreement with County.** Property tax revenues to the City have been affected by the "Revenue Neutrality Agreement" between the City and Sacramento County. The agreement was entered into upon incorporation as means of mitigating the financial impacts of the incorporation of the City in 2000-01 on the County's general fund. Property tax generated by the Laguna West Annexation area of the City is not subject to the Revenue Neutrality Agreement. This agreement calls for reductions in property tax receipts to the City over a period of 25 years, ending in 2024-25, when the City will receive 100% of its share of property taxes. The percentage of taxes retained by the County and City are summarized below:

<u>Year</u>	<u>Fiscal Year</u>	<u>County Share</u>	<u>City Share</u>
18	2017-18	75%	25%
19	2018-19	70%	30%
20	2019-20	60%	40%
21	2020-21	50%	50%
22	2021-22	40%	60%
23	2022-23	30%	70%
24	2023-24	20%	80%
25	2024-25	10%	90%
26	2025-26	0%	100%

Source: City of Elk Grove Finance Department.



All costs and expenses associated with the collection, administration and interest earning capabilities of the City property tax revenue shall be shared by the City and the County in accordance with the same percentages as the underlying property taxes with the exception of the Laguna West Annexation property tax allocation which is not subject to the Revenue Neutrality Agreement.

The City records property tax receipts as a gross amount and records the amount withheld by the County as a General Government expense. Pursuant to the Revenue Neutrality Agreement, the City paid the County the amounts below for fiscal years 2012-13 through fiscal year 2016-17.

**TABLE 14**  
**City of Elk Grove**  
**Revenue Neutrality Payment History**

Fiscal Year	Gross Property Tax	Amount Subject to Neutrality Agreement <sup>(1)</sup>	% to County	Revenue Neutrality Payment to County	Net Property Tax
2012-13	\$10,174,450	\$6,487,189	80%	\$5,189,751	\$4,984,699
2013-14	9,680,846	7,321,780	80	5,857,424	3,823,422
2014-15	10,748,517	8,155,579	75	6,116,684	4,631,833
2015-16	11,443,260	8,400,048	75	6,300,036	5,143,224
2016-17 <sup>(2)</sup>	23,670,228	9,024,168	75	6,768,126	16,902,102

(1) Property taxes derived from Laguna West Annexation area of the City are not subject to the Revenue Neutrality Agreement.

(2) Property Tax in Lieu of Vehicle License Fee (VLF) was included in Intergovernmental until fiscal year 2016-17 when it was moved to Property Taxes.

Source: City of Elk Grove Finance Department.

**General Property Taxes.** Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and 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 public utilities property and real property the taxes on which have a viable tax lien, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment 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

Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

**Property Tax Delinquencies; Teeter Plan.** Certain counties in the State of California, including Sacramento, offer a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The County includes the City's property tax collections in its Teeter Plan. Consequently, the City's receipt of property taxes is equal to 100% of the amount levied. There is no assurance that the County will continue the Teeter Plan or that the City will continue to participate in the Teeter Plan. Delinquencies in the payment of property taxes could have an adverse effect on the ability of the City to make Lease Payments should the County discontinue the Teeter Plan or the City withdraw from or not be able to continue in the Teeter Plan.

**Assessed Valuation.** The table below presents the assessed valuation of taxable property in the City from fiscal year 2007-08 through fiscal year 2016-17.

**TABLE 15**  
**City of Elk Grove**  
**Assessed Value and Estimated Value of All Taxable Property**  
**Fiscal Years 2007-08 through 2016-17**  
**(000s omitted)**

Fiscal Year	Residential	Commercial	Industrial	Other	Less Exemptions	Total Assessed Value
2007-08	\$12,812,159	\$1,307,483	\$331,711	\$3,269,371	\$234,787	\$17,485,938
2008-09	14,318,680	1,748,263	418,427	918,496	270,922	17,132,945
2009-10	12,008,554	1,848,883	464,328	846,991	324,209	14,844,547
2010-11	12,094,995	1,909,454	439,942	776,945	296,153	14,925,183
2011-12	11,825,574	1,692,436	431,093	675,132	333,571	14,290,664
2012-13	11,029,428	1,532,670	385,076	608,915	346,234	13,209,855
2013-14	12,146,070	1,500,346	392,460	567,434	359,425	14,245,886
2014-15	13,492,527	1,587,754	419,089	619,856	398,319	15,720,908
2015-16	14,087,122	1,687,253	442,986	675,804	430,877	16,462,288
2016-17	15,202,007	2,006,206	467,573	758,478	426,240	18,008,024

Source: City of Elk Grove, based on information provided by the Sacramento County Auditor-Controller Office.

**Largest Property Taxpayers.** The largest local secured property taxpayers in the City, as shown on the 2016-17 secured tax roll, are listed in the table below. For fiscal year 2016-17, the total assessed valuation of the ten largest local secured taxpayers is 4.53% of the total City fiscal year 2016-17 assessed valuation of \$18,008,023,600. The City's receipt of property taxes is limited due to the Revenue Neutrality Agreement. See "–Property Taxes" above.

**TABLE 16**  
**City of Elk Grove**  
**Largest Property Taxpayers**  
**Fiscal Year 2016-17**

Taxpayer	2016-17 Assessed Valuation	Percentage of Total Assessed Valuation <sup>(1)</sup>
Apple Computer Inc.	\$191,571,799	1.06%
Donahue Schriber Realty Group LP	145,892,248	0.81
Pappas Laguna 2 LP	96,678,753	0.54
Laguna Springs Corporation Center	73,131,965	0.41
Kaiser Foundation Health Plan Inc.	64,755,470	0.36
Oakmont Properties II LP	60,183,131	0.33
WSI Poppy Ridge LLC	49,330,418	0.27
9130 Nolan Street LLC	46,642,723	0.26
Jackson II LLC	44,472,231	0.25
Norwalk Flallon LLC	43,148,118	0.24
Total	\$815,806,856	4.53%

(1) The total City assessed valuation for fiscal year 2016-17 is \$18,008,023,600 (after exemptions).  
Source: County of Sacramento Assessor's Office and the SBE Non-Unitary Tax Roll.

**Proposition 13 and Proposition 8 Property Value Adjustments.** Proposition 13, passed in 1978, established the base year value concept for property tax assessments. Under Proposition 13, the 1975-76 fiscal year serves as the original base year used in determining the assessment for real property. Thereafter, annual increases to the base year value are limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less. A new base year value, however, is established whenever a property, or portion thereof, has had a change in ownership or has been newly constructed.

Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a "decline-in-value." As of the January 1st (lien date) each year, the Assessor must enroll either a property's Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a "Proposition 8 Value." "Proposition 8 values" are temporary and, once enrolled, must be reviewed annually by the assessor until the Proposition 13 adjusted base year value is enrolled.

### Other Sources of Revenues

**Vehicle License Fee.** The Vehicle License Fee (VLF) is a fee in lieu of property tax that is based on the depreciated value of the vehicle. The VLF is collected by the State's Department of Motor Vehicles and disbursed by the State Controller to cities and counties based on population. The City's VLF revenues are projected to be \$12,311,200 in fiscal year 2017-18.

**Utility Users' Tax.** A utility users' tax is levied on telecommunications and video, gas, electricity, sewer, and cable television services. The utility users' tax ordinance was updated in 2010 and the rate for this charge was changed from 2.5% to 2.25%.

*Real Property Transfer Tax.* The County imposes a transfer tax on real property sold in the City, at a rate of \$1.10 per \$1,000 of real property value. Half of this amount is returned to the City.

*Transient Occupancy Tax.* The City levies a 12% transient occupancy tax on hotel and motel bills. This does not include assessments levied on lodgings located within the Elk Grove Tourism Marketing District, which is a benefit assessment district in the City.

*Franchise Fees.* The City imposes franchise fees on integrated waste, oil/gas, and cable television companies.

### **Direct and Overlapping Debt**

Set forth on the following page is a direct and overlapping debt report for the City (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. and dated as of June 30, 2017. 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 representations 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 from the general fund or other revenues of such public agency. The total 2016-17 assessed valuation of \$18,080,720,336 reflected in the Debt Report is provided by California Municipal Statistics, Inc. and not the City or the County.

**TABLE 17**  
**City of Elk Grove**  
**Direct and Overlapping Debt Statement**  
**(as of June 30, 2017)**

2016-17 Assessed Valuation: \$18,080,720,336

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>Total Debt</u>	<u>% Applicable<sup>(1)</sup></u>	<u>City's Share of Debt</u>
Los Rios Community College District	\$340,100,000	10.464%	\$35,588,064
Elk Grove Unified School District	82,100,000	56.434	46,332,314
Sacramento Unified School District	528,757,966	0.163	861,875
City of Elk Grove Community Facilities District No. 2002-1	47,985,000	100.000	47,985,000
City of Elk Grove Community Facilities District No. 2003-1	41,510,000	100.000	41,510,000
City of Elk Grove Community Facilities District No. 2005-1	113,500,000	100.000	113,500,000
Elk Grove Unified School District Community Facilities District No. 1	205,377,561	56.434	115,902,773
Sacramento County Community Facilities Districts	6,726,017	100.000	6,726,017
California Statewide Community Development Authority 1915 Act Bonds	6,539,580	100.000	<u>6,539,580</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$414,945,623</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Sacramento County General Fund Obligations	\$235,694,277	12.749%	\$30,048,663
Sacramento County Pension Obligation Bonds	944,016,200	12.749	120,352,625
Sacramento County Board of Education Certificates of Participation	5,675,000	12.749	723,506
Los Rios Community College District Certificates of Participation	700,000	10.464	73,248
Sacramento Unified School District Certificates of Participation	67,920,000	0.163	110,710
Cosumnes Community Services District Certificates of Participation	23,935,000	87.476	20,937,381
<b>City of Elk Grove General Fund Obligations</b>	<b>14,350,000</b>	<b>100.000</b>	<b><u>14,350,000</u></b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$186,596,133</b>
<b>Less: City of Elk Grove Lease Revenue Bonds supported by enterprise revenues</b>			<b><u>9,410,000</u></b>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$177,186,133</b>
 <b>TOTAL GROSS DIRECT DEBT</b>			 <b>\$14,350,000</b>
<b>TOTAL NET DIRECT DEBT</b>			<b>\$4,940,000</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>\$587,191,756</b>
 <b>GROSS COMBINED TOTAL DEBT</b>			 <b>\$601,541,756<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>			<b>\$592,131,756</b>
 <u>Ratios to Assessed Valuation:</u>			
Total Overlapping Tax and Assessment Debt .....	2.29%		
<b>Total Gross Direct Debt (\$14,350,000) .....</b>	<b>0.08%</b>		
<b>Total Net Direct Debt (\$4,940,000).....</b>	<b>0.03%</b>		
Gross Combined Total Debt.....	3.33%		
Net Combined Total Debt.....	3.27%		

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Source: California Municipal Statistics, Inc.

## Long-Term Obligations Payable Out of General Fund

The City's general fund obligations consist of two outstanding lease obligations, compensated absences and net pension.

### ***Outstanding Lease Obligations.***

*2010 Lease Revenue Bonds.* On December 15, 2010, the Authority issued its Elk Grove Finance Authority Series 2010 Lease Revenue Bonds in the amount of \$10,715,000 (the "**2010 Lease Revenue Bonds**") to fund a portion of the costs of construction of a household hazardous waste collection facility, the acquisition of land, furnishings and equipment related to the facility. The 2010 Lease Revenue Bonds have interest rates of 3.4% to 8.7% and mature beginning March 1, 2012, through March 1, 2040, and are payable primarily from lease payments made by the City pursuant to a Lease Agreement, dated as of December 1, 2010, between the City and the Authority. The 2010 Lease Revenue Bonds are also payable from, and secured by, lease revenues and certain refundable credits payable by the federal government.

*2017 Lease Agreement.* On June 8, 2017, the Authority entered into an Assignment of Lease with Compass Mortgage Corporation pursuant to which the Authority assigned its right to receive lease payments from the City pursuant to a Lease Agreement, dated as of June 1, 2017, between the City and the Authority (the "**2017 Lease Agreement**"). The 2017 Lease Agreement has an effective interest rate of 2.41% and terminates March 1, 2027. Proceeds of the 2017 Lease Agreement were used to defease and redeem all of the outstanding Elk Grove Finance Authority Lease Revenue Bonds (2007 Capital Projects), which were issued in 2007 to fund the purchase of the City's administrative office located at 8401 Laguna Palms Way and to pay off the capital leases for 8380 and 8400 Laguna Palms Way, which comprise the City Hall complex.

***Compensated Absences.*** At June 30, 2017, the City's liability with respect to compensated absences amounted to approximately \$3,991,532, with \$3,672,209 of this amount to be paid in future years from the General Fund.

## Investment Policy and Portfolio

The Director of Finance and Administrative Services manages the City's investment portfolio. For additional information concerning the City investments, see "APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2017 - Note 2 - Cash and Investments."

The following table summarizes the City's investment portfolio as of December 31, 2017.

**TABLE 18**  
**City of Elk Grove**  
**Summary of Investment Portfolio**  
**as of December 31, 2017**

<u>Investment Type</u>	<u>% of Investment Portfolio</u>	<u>Market Value</u>
Cash and Cash Equivalents	14.77%	\$30,991,565
Medium Term Bond Mutual Fund	9.38	19,691,008
Certificates of Deposit	10.75	22,558,044
Agency Securities	21.53	45,178,428
US Treasury Notes	15.18	31,852,336
Corporate Securities	15.84	33,245,653
Municipal Securities	12.55	26,335,370
<b>Total</b>	<b>100.00%</b>	<b>\$209,852,404</b>

Source: City of Elk Grove Finance Department.

## Employee Relations

The only City employees who are represented by an employee association are the City's police officers. The Elk Grove Police Officers Association covers 185 employees, and The Elk Grove Police Manager's Association covers nine employees. The City maintains contracts with each association, both of which expire on June 30, 2019. The remainder of the City staff is employed at will.

## Health Coverage

City employees are covered under a medical and prescriptions policy with coverage limited to \$2,000,000 in aggregate. The City offers a "cafeteria plan," which includes a monthly health contribution that an employee may apply toward premiums for medical, dental, vision, and life insurance.

## Pension Plans

*This caption contains certain information relating to California Public Employees' Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations and expresses no opinion as to the accuracy of the information provided by CalPERS.*

*The comprehensive annual financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. None of the Authority,*

*City or Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.*

**Implementation of GASB Nos. 68 and 71.** In June 2012 and November 2013, the Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 ("GASB Statement No. 68")* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 ("GASB Statement No. 71")*, respectively. The primary objective of GASB Statement No. 68, as amended, is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68, as amended, revised the accounting treatment of defined benefit pension plans, changing the way expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. Major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (previously, such unfunded liabilities were typically included as notes to the government's financial statements); (ii) pension expense incorporates more rapid recognition of actuarial experience and investment returns and is no longer based on the employer's actual contribution amounts; (iii) lower actuarial discount rates that are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities that are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns to will be recognized over a closed five-year smoothing period. The reporting requirements took effect in fiscal year 2014-15. Based on the adoption of the new accounting standards, beginning with the fiscal year 2014-15 actuarial valuation, the annual required contribution and the annual pension expense will be different. GASB Statement No. 68, as amended, changes the reporting and disclosure requirements for financial statement accounting purposes, but it does not change the City's pension plan funding obligations and, therefore, had no effect on the City's General Fund.

Information shown in this section that has been sourced from a CalPERS Actuarial Valuation Report has not been prepared in accordance with GASB Statement No. 68, as amended.

**Plan Description.** All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by CalPERS. The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors 6 rate plans (three miscellaneous and three safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.



**Benefits Provided.** The Plan provides service 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. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The provisions and benefits of each plan that were in effect at June 30, 2017, are summarized as follows:

### Miscellaneous Plan

	<u>Miscellaneous - Classic</u>	<u>Miscellaneous - Second Tier</u>	<u>Miscellaneous - PEPRA</u>
Hire Date	Prior to August 12, 2012	On or after August 12, 2012*	On or after January 1, 2013*
Benefit Formula	2.7% @ 55	2% @ 55	2.0% @ 62
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50-55	50-63	52-67
Monthly Benefits, As a % of Eligible Compensation	2.0% to 2.7%	1.426% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rates	8.00%	7.00%	6.25%
Required Employer Contributions Rates	11.634%	8.880%	6.555%

### Safety Plans

	<u>Safety - Police</u>	<u>Safety - Police Second Tier</u>	<u>Safety - PEPRA Police</u>
Hire Date	Prior to August 12, 2012	On or after August 12, 2012*	On or after January 1, 2013*
Benefit	3% @ 50	3.0% @ 55	2.7% @ 57
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50	50-55	50-57
Monthly Benefits, As a % of Eligible Compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required Employee Contribution Rates	9.00%	9.00%	11.50%
Required Employer Contributions Rates	19.536%	17.689%	12.082%

\* Employees hired on or after January 1, 2013 enter the City's second tier or PEPRA plans depending on previous experience. Employees who were previously participating in a PEPRA plan through CalPERS, or who were not participating in any CalPERS plan within six months prior to hire date, are enrolled in the City's PEPRA Miscellaneous or PEPRA Safety Police rate plans. Employees who were participating in a non-PEPRA CalPERS plan within six months prior to hire date are enrolled in the City's Miscellaneous or Safety Police Second tier plans.

The City is required to contribute at an actuarially determined rate of annual covered payroll, plus a fixed payment of unfunded liability. The actuarially determined rates and amounts for each plan for the fiscal years ended June 30, 2017 through June 30, 2019, are as follows:

**City's Required Employer Contribution Rate**

	<u>Fiscal Year 2016-17</u>		<u>Fiscal Year 2017-18</u>		<u>Fiscal Year 2018-19</u>	
	<u>Employer Normal Cost Rate</u>	<u>Employer Payment of Unfunded Liability</u>	<u>Employer Normal Cost Rate</u>	<u>Employer Payment of Unfunded Liability</u>	<u>Employer Normal Cost Rate</u>	<u>Employer Payment of Unfunded Liability</u>
Miscellaneous Plan - Classic	11.634%	\$261,230	11.675%	\$324,349	12.212%	\$382,480
Miscellaneous Plan - Second Tier	8.880	0	8.921	0	9.409	1,051
Miscellaneous Plan - PEPRA	6.555	152	6.533	365	6.842	1,673
Safety-Police Plan - Classic	19.536%	\$214,674	19.723%	\$309,916	20.556%	\$471,913
Safety-Police Plan - Second Tier	17.689	0	17.875	29	18.677	1,937
Safety-Police Plan - PEPRA	12.082	74	11.990	383	12.141	1,436

Source: CalPERS Actuarial Reports dated November 2015, August 2016, and July 2017.

On July 14, 2017, CalPERS announced preliminary investment returns for the 12-month period ended June 30, 2017, of 11.2%. Based on these preliminary fiscal year returns, the funded status of the overall CalPERS fund is an estimated 68%, an increase of 3 percentage points from the previous fiscal year. This estimate is based on a 7% discount rate.

The City's total contributions to the Plans in fiscal years 2013-14 through 2016-17 were as follows:

<u>Fiscal Year</u>	<u>Total City Contribution</u>
2013-14	\$4,803,180
2014-15	5,006,117
2015-16	3,861,199
2016-17	4,739,437

**Funded Status.** The following table sets forth the schedule of funding for the City's Plans for the fiscal years ended June 30, 2014, 2015, and 2016. As of the June 30, 2016 valuation date, the aggregate Unfunded Liability of all of the Plans totaled \$18.1 million, and the aggregate funded ratio was 81.0%.

<u>Miscellaneous Plan - Classic</u>					
<u>Valuation Date (June 30)</u>	<u>Accrued Liability</u>	<u>Share of Pool's Market Value of Assets</u>	<u>Plan's Share of Pool's Unfunded Liability</u>	<u>Funded Ratio<sup>(1)</sup></u>	<u>Annual Covered Payroll</u>
2014	\$28,147,743	\$23,554,776	\$4,592,967	83.7%	\$9,632,801
2015	31,938,663	26,383,973	5,554,690	82.6	8,763,524
2016	36,280,699	28,858,369	7,422,330	79.5	8,587,098

(1) Based on the market value of assets.  
Source: CalPERS Actuarial Report Dated August 2017.

**Miscellaneous Plan - Second Tier**

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio <sup>(1)</sup>	Annual Covered Payroll
2014	\$182,472	\$193,091	\$(10,619)	105.8%	\$904,231
2015	387,976	394,717	(6,741)	101.7	1,257,360
2016	728,111	676,434	51,677	92.9	1,611,595

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated August 2017.

**Miscellaneous Plan - PEPRA**

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio <sup>(1)</sup>	Annual Covered Payroll
2014	\$81,714	\$87,419	\$(5,705)	107.0%	\$850,377
2015	261,978	250,980	10,998	95.8	1,848,741
2016	588,038	529,192	58,846	90.0	2,838,587

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated August 2017.

**Safety Plan - Classic**

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio <sup>(1)</sup>	Annual Covered Payroll
2014	\$38,815,733	\$33,749,778	\$5,065,955	87.0%	\$11,831,888
2015	46,865,080	40,511,655	6,353,425	86.4	11,236,327
2016	55,803,070	45,381,421	10,421,649	81.3	10,543,389

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated August 2017.

**Safety Plan - Second Tier**

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio <sup>(1)</sup>	Annual Covered Payroll
2014	\$73,532	\$86,825	\$(13,293)	118.1%	\$599,778
2015	282,104	287,719	(5,615)	102.0	961,266
2016	1,199,543	1,111,446	88,097	92.7	1,205,636

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated August 2017.

**Safety Plan - PEPR**

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio <sup>(1)</sup>	Annual Covered Payroll
2014	\$44,933	\$47,830	\$(2,897)	106.5%	\$374,996
2015	197,701	186,691	11,010	94.4	833,058
2016	451,611	403,765	47,846	89.4	1,647,329

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated August 2017.

**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 30-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 13, 2018, the Board of Administration voted to shorten the period over which CalPERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019 actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain 5-year ramp-up and ramp-down periods will be eliminated.

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 7.375%, 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>. This policy is in suspense until the discount rate is fully reduced to 7.000% as described below. *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 discount rate of 7.375% became effective on July 1, 2017. 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.

The City made accelerated payments during Fiscal Year 2016-17 and Fiscal Year 2017-18 towards the unfunded liability, totaling approximately \$2.7 million. In addition, after the mid-year review of the adopted budget for fiscal year 2017-18, the City will be making an additional accelerated payment to its unfunded liability to CalPERS of \$900,000. These payments are not yet reflected in CalPERS reports.

No assurance can be given that the Board of Administration will not make further changes to the methods used to determine pension liability of CalPERS members, including the City.

### **Deferred Compensation**

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Sections 457 and 414(h) of the Tax Code. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan. The City will match up to 2%, 3% or 4% of the covered payroll as a benefit under Section 401A of the Tax Code. For the 2015-16 fiscal year the City's matching contribution was \$560,981.

### **Other Post-Employment Benefits Other Than Pensions**

**Description of Postretirement Healthcare Benefits.** The City provides three separate Other Post Employment Benefit ("OPEB") plans for qualified executive staff and employees who retire from the City. One OPEB plan is a single employer defined benefit health reimbursement arrangement administered through the use of an OPEB Trust Fund (the "HRA Plan") and was closed in 2010 to new employees and employees not then within 5 years of retirement age. The second plan is a defined contribution plan to which the City and employees contribute an

amount each pay period to employee accounts (defined contribution plan). The third OPEB plan is a single employer defined benefit plan providing a health insurance premium rate subsidy administered by CalPERS on behalf of the City (the “**Health Insurance Rate Subsidy Plan**”).

The City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017, and in particular Note 11 thereto, includes information about the City’s post-employment healthcare liabilities and funding.

**Funding Policies.** For all three OPEB plans, the contribution requirements of plan members and the City are established and may be amended a) by the City Council through negotiations with the City’s bargaining units, or b) by administrative directive for non-represented employees. Biannually actuarial reports are prepared by an actuary that calculates the HRA and Health Insurance Rate Subsidy plan annual required contributions (ARC) and the actuarial accrued liability. New actuarial reports were prepared as of July 1, 2016. These amounts are disclosed in the table that follows. The following disclosures are for the HRA Plan and the Health Insurance Rate Subsidy Plan only. These disclosures do not apply to the Defined Contribution Plan since it does not have any defined benefit characteristics and no liability beyond the on-going employer contribution.

**Funding Progress and Funded Status.** Generally accepted accounting principals permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement or made by implicate rate subsidies.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to each OPEB plan and the net OPEB asset for the year ended June 30, 2017 and the two preceding years were as follows:

<b>HRA Plan</b>			
Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset (Liability)
2015	\$290,907	192%	\$163,715
2016	347,362	107	186,353
2017	358,773	111	227,580

  

<b>Health Insurance Rate Subsidy Plan</b>			
Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset (Liability)
2015	\$211,315	414%	\$212,767
2016	173,708	122	250,359
2017	199,528	100	250,831

The funded status of the plans as of June 30, 2017, based on the most recent roll forward valuation date of November 2017 for both the HRA and the Health Insurance Rate Subsidy Plan is as follows:

	<b>HRA Plan</b>	<b>Rate Subsidy Plan</b>
Total OPEB Liability	\$4,542,982	\$2,777,214
Fiduciary Net Position	2,768,133	2,647,198
Net OPEB Liability	\$1,774,849	\$130,016
Funded Ratio (Fiduciary Net Position)	60.9%	95.3%

Covered Payroll (Active Plan Members)	\$1,495,962	\$27,743,749
Net OPEB Liability as a Percentage of Covered Payroll	118.6%	0.5%

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City reports all insurance expense in the Risk Management internal service fund.

The City participates in a joint venture under a Joint Powers Agreement (JPA) with the California State Association of Counties – Excess Insurance Authority (CSAC-EIA). Established in 1979, CSAC-EIA is a risk pooling authority comprised of 55 of 58 California counties and provides a viable and cost-effective solution for the entities’ insurance and risk management needs. The purpose of CSAC-EIA is to spread the adverse effect of losses among the member entities and to purchase excess insurance as a group, thereby reducing its costs. The City is part of the General Liability I program (which includes Errors and Omissions coverage and Employment Liability coverage). CSAC-EIA provides the City with property, pollution, cyber liability, and crime bond insurance.

The City’s deductibles and maximum coverage follows:

	<b>Self-Insured Retention</b>	<b>Limit Per Occurrence</b>	<b>Aggregate</b>
General Liability Coverage	\$50,000	\$25,000,000	\$25,000,000
Property Coverage			
All Risk	5,000	25,000,000	600,000,000
Auto	20,000	25,000,000	600,000,000
Buses	100,000	25,000,000	600,000,000
Crime Coverage	2,500	1,000,000	1,000,000
Pollution Coverage	100,000	10,000,000	100,000,000
Cyber Liability Coverage	50,000	2,000,000	20,000,000

*Source: City of Elk Grove audited financial statements for fiscal year 2016-17.*

CSAC-EIA is governed by a 65-member Board of Directors, composed of one representative from each member county and ten members elected by the public entity membership. Each member entity pays a contribution commensurate with the level of coverage provided and shares surpluses and deficits proportionate to their participation. See “APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2017 - Note 14 - Risk Management.”

## **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 State Constitution**

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to June 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two thirds of the votes cast by the voters voting on the Proposition. Section 2 of 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 has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, does not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment could serve to reduce the property-tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residences and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of "newly constructed" the construction or installation of seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also 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, provided 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.



## **Article XIII B of the State Constitution**

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the appropriations limit for the prior Fiscal Year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978–79 Fiscal Year. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

Appropriations of an entity of local government subject to Article XIII B generally include authorizations to expend during a Fiscal Year the "proceeds of taxes" levied by or for the entity, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include but are not limited to, all tax revenues, certain State subventions received by the local governmental entity and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost of providing the service or regulation) and (2) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Article XIII B does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose, or appropriations for certain other limited purposes. Furthermore, Article XIII B was amended in 1990 to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long term General Fund lease obligations are generally excluded from the City's appropriations limit.

The City has never exceeded its appropriations limit.

## **Articles XIII C and XIII D of the State 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 XIII C and XIII D 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 XIII A and XIII C of the State Constitution. The amendments to Article XIII A 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 XIII C 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 XIIC 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 XIID 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. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

**Reduction or Repeal of Taxes, Assessments, Fees and Charges.** Article XIIC 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 Bonds could be adversely affected.

**Burden of Proof.** Article XIIC 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 XIID 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 XIID.

**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 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.

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988–89 Fiscal Year, are allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State–assessed revenue; and (ii) if county–wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State–assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

### **Possible Future Initiatives**

Article XIII A, Article XIII B and Propositions 218, 26, IA and 22 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 the City’s revenues or its ability to expend revenues.

## BOND OWNERS' RISKS

*The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.*

### **No Pledge of Taxes**

**General.** The obligation of the City to pay the Lease Payments and Additional Rental 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 and Additional Rental Payments does not constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The City is currently liable on other obligations payable from general revenues, which are described above under "CITY FINANCIAL INFORMATION – Long-Term Obligations Payable Out of General Fund."

**Limitations on Taxes and Fees.** Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIIC and Article XIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIIC and Article XIID of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIIC and Article XIID of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIIC and Article XIID of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIC and Article XIID of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

### **Additional Obligations of the City**

**General.** The City has existing obligations payable from its General Fund. See "CITY FINANCIAL INFORMATION – Long-Term Obligations Payable Out of General Fund." In addition, the City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds, and may in the future be

subject to liabilities payable from the general fund (some of which are described below). To the extent that additional obligations are incurred by (or imposed upon) the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

*Litigation Unrelated to General Fund.* The City is subject to litigation from time-to-time, which, if adversely determined to the City, could result in additional liabilities payable from the City's general fund. For example, the City has been named as a defendant in a lawsuit brought by Reynen & Bardis (Laguna Ridge), LP ("R&B") related to the City's Community Facilities District No. 2005-1 (Laguna Ridge), *Reynen & Bardis (Laguna Ridge) v. City of Elk Grove; Community Facilities District 2005-1; and DOES 1-100*, Sacramento County Superior Court Case No. 34-2016-80002482 (the "R&B Litigation"). In the R&B Litigation, R&B seeks money damages in the amount of over \$40 million dollars. Among other things, R&B has alleged that the City is responsible for reimbursing R&B for infrastructure improvements eligible for reimbursement from the community facilities district. The City has denied all the claims on multiple grounds, including, among other grounds, res judicata, collateral estoppel, failure to timely submit claims or exhaust administrative remedies, the statute of limitations, and waiver. The City believes that even if an adverse judgment were received in the R&B Litigation against the City, the judgment would be payable from special tax revenues and bond proceeds of Community Facilities District No. 2005-1 (Laguna Ridge); however, no assurance can be given that there would be no impact on the City's general fund.

*CalPERS Obligations.* Many cities and other local agencies in the State have been faced with increased payments due to CalPERS in recent years. The City, like many other cities and local agencies in the State, is responsible for payments to CalPERS for its share of employee pension costs. Amounts owed to CalPERS for pension costs have increased in recent years and are expected to continue to increase, as CalPERS implements changes to its discount rate and other methodologies for calculating pension costs. Although the City made accelerated payments during Fiscal Year 2016-17 and Fiscal Year 2017-18 towards its unfunded liability, totaling approximately \$2.7 million, there can be no guarantee additional unfunded liability will not accrue in the future. See "THE CITY – Pension Plans" for additional information on CalPERS.

### **No Reserve Fund**

No reserve fund will be established and maintained with respect to the Bonds. As a result, in the event on non-appropriation or non-payment of the Lease Payments in full when due, no other source of funds will be available to make payments of debt service Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

## **Default**

Whenever any event of default referred to in the Lease happens and continues, the Trustee (as assignee of the Authority) is authorized under the terms of the Lease to exercise any and all remedies available under law or granted under the Lease. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a detailed description of available remedies in the case of a default under the Lease.

If a default occurs, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease. The Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Bonds or pay debt service on the Bonds.

The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

## **Abatement**

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Leased Property, the City's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Bonds as and when due. See "SECURITY FOR THE BONDS – Abatement" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Although the City is required under the Lease to maintain property and liability insurance with respect to the Leased Property, the required insurance coverage is subject to certain conditions and restrictions. See "SECURITY FOR THE BONDS – Property Insurance."

In addition, the City is required to use the proceeds of rental interruption insurance maintained under the Lease to make debt service payments on the Bonds during any period of abatement. See "SECURITY FOR THE BONDS – Property Insurance." However, there is no assurance that the City will receive proceeds of rental interruption insurance in time to make debt service payments on the Bonds when due.

## **Sales Taxes**

For Fiscal Year 2016-17, sales tax revenues were the largest source of revenue to the City. Sales tax revenues are based upon the gross receipts of retail sales of tangible goods and products by retailers with taxable transactions in the City, which could be impacted by a variety of factors.

For example, before final maturity of the Bonds, the City may enter into an economic recession. In times of economic recession, the gross receipts of retailers often decline, and such a decline would cause the sales tax revenues received by the City to also decline.

In addition, changes or amendments in the laws applicable to the City's receipt of sales tax revenues, whether implemented by State legislative action or voter initiative, could have an

adverse effect on sales tax revenues received by the City. For example, many categories of transactions are exempt from the statewide sales tax, and additional categories could be added in the future. Currently, most sales of food products for human consumption are exempt; this exemption, however, does not apply to liquor or to restaurant meals. The rate of sales tax levied on taxable transactions in the City or the fee charged by the CDTFA for administering the City's sales tax could also be changed.

## **Property Taxes**

**Levy and Collection.** The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City's property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Lease Payments. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the City's ability to pay principal of and interest on the Bonds when due.

**Reduction in Inflationary Rate.** Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation a limited number of times.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

**Appeals of Assessed Values.** There are two types of appeals of assessed values that could adversely impact property tax revenues:

*Proposition 8 Appeals.* Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original

values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

**Base Year Appeals.** A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City’s property tax revenues.

### **Natural Calamities**

**General.** From time to time, the City is subject to natural calamities, including, but not limited to, floods, levee failures (due to seismic events or otherwise), wildfires, and other severe weather events, 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 and costs for the City or impact the Leased Property.

**Flood.** Flood hazards in the City are associated with overbank flooding of creeks and drainage canals, dam failures or levee failures. These events could occur following a heavy rainfall event in the City.

**Levee Failures.** A levee failure to any of the levees in the vicinity of the City could result in catastrophic damage in areas of the City.

The City, like much of California, may be subject to earthquakes or other unpredictable seismic activity that could result in damage to structures, including levees.

**Wildfire.** The City is also subject to risks from wildfires.

**Other Severe Weather Events.** Land in the City, including the Leased Property, could be damaged by other severe weather events, including tornados.

### **Limitations on Remedies Available to Bond Owners**

The ability of the City to comply with its covenants under the Lease may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” above. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Lease or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.



In addition to the limitations on Bondowner remedies contained in the Lease and the Indenture, the rights and obligations under the Bonds, the Lease and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Bonds, will include a qualification that the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture, the Lease and the Site Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases. See "APPENDIX D — FORM OF OPINION OF BOND COUNSEL."

### **Loss of Tax-Exemption**

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City or the City in violation of their respective covenants in the Lease and the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

## TAX MATTERS

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 interest on the Bonds 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 Authority comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the Bonds. The Authority has covenanted 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 issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond 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 (excluding bond houses and brokers) at which a Bond 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 Bond 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 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds 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 Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond'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 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not

deductible for federal income tax purposes. Owners of premium Bonds, 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 Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds 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 Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

#### **CERTAIN LEGAL MATTERS**

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which is set forth in "APPENDIX D — FORM OF OPINION OF BOND COUNSEL." Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

#### **LITIGATION**

Except as may otherwise be set forth in this Official Statement, to the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending and notice of which has been served on and received by the City or, to the knowledge of the City, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease, the Site Lease or the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease, the Site Lease or the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Lease.

## RATING

S&P Global Ratings (“**S&P**”), a division of Standard & Poor’s Financial Services LLC has assigned its municipal bond rating of “\_\_\_\_\_” to the Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement). There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

## CONTINUING DISCLOSURE

The City (on behalf of the Authority and itself) will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City (the “**Annual Report**”) and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in “APPENDIX C — FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

In the previous five years, to the best of the City’s knowledge, the City has not failed to comply, in all material respects, with any of its prior undertakings made pursuant to the Rule.

## MUNICIPAL ADVISOR

The City and the Authority have retained Fieldman, Rolapp & Associates, Inc., of Irvine, California, as municipal advisor (the “**Municipal Advisor**”) in connection with the offering of the Bonds. All financial and other information presented in this Official Statement has been provided by the City and the Authority from their records, except for information expressly attributed to other sources. The Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the City, Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fee of the Municipal Advisor is contingent upon the successful closing of the Bonds.

## UNDERWRITING

Stifel Nicolaus & Company, Incorporated (the “**Underwriter**”), has entered into a Bond Purchase Agreement with the Authority under which it will purchase the Bonds at a purchase price of \$\_\_\_\_\_ (which is equal to the par amount of the Bonds, less an

Underwriter's discount of \$\_\_\_\_\_, and plus (less) a net original issue premium (discount) of \$\_\_\_\_\_).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

### **PROFESSIONAL SERVICES**

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; Fieldman, Rolapp & Associates, Inc., Irvine, California, as municipal advisor to the Authority and the City; Orrick, Herrington & Sutcliffe LLP, as counsel to the Underwriter; and U.S. Bank National Association, as Trustee.

### **EXECUTION**

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the City Council of the City.

ELK GROVE FINANCE AUTHORITY

By: \_\_\_\_\_  
Treasurer

CITY OF ELK GROVE

By: \_\_\_\_\_  
Director of Finance and Administrative Services

**APPENDIX A**  
**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR FISCAL YEAR ENDING JUNE 30, 2017**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
ELK GROVE FINANCE AUTHORITY  
2018 Lease Revenue Bonds  
(Capital Facilities)

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Elk Grove (the "City"), on behalf of the Elk Grove Finance Authority (the "Authority") and itself, in connection with the issuance by the Authority of the bonds captioned above (the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of April 1, 2018 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of itself and the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means March 31 of each year.

"*Dissemination Agent*" means NBS Government Finance Group, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) 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 that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement dated \_\_\_\_\_, 2018, executed by the City and the Authority in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.



“Rule” means Rule 15c2-12(b)(5) 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 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2019, with the report for Fiscal Year 2017-18, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by 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 Annual Report Date, if not available by that date. 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(b). The City shall provide a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

The filing of the Official Statement with the MSRB upon delivery of the Bonds shall be deemed to satisfy the filing requirement under the Rule with respect to the Annual Report for fiscal year 2016-17.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial

statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) the principal amount of Bonds outstanding as of June 30 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture as of June 30 preceding the filing of the Annual Report; and

(iii) updates as of June 30 preceding the filing of the Annual Report of the substance of the information contained in Tables 9, 10, 12, 14 and 15 in the Official Statement.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material 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.

(d) 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 the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) 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.
- (7) Modifications to rights of security holders, if material.

- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an 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, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States 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 City, or if such jurisdiction has been assumed by leaving the existing governing 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 City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the 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 legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. 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. The initial Dissemination Agent will be NBS Government Finance Group. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to

investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

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, the Participating Underwriter or any holder or beneficial owner of the Bonds 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. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and 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.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, 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 costs and expenses (including attorneys' fees) 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 no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:

Elk Grove Finance Authority  
c/o City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758

To the Dissemination Agent

NBS Government Finance Group  
32605 Temecula Parkway, Suite 100  
Temecula, California 92592

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 2018

CITY OF ELK GROVE

By: \_\_\_\_\_  
Director of Finance and  
Administrative Services

AGREED AND ACCEPTED:  
NBS Government Finance Group,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Elk Grove Finance Authority

Name of Bond Issue: Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities)

Date of Issuance: \_\_\_\_\_, 2018

NOTICE IS HEREBY GIVEN that the City of Elk Grove (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of \_\_\_\_\_, 2018, executed by the City. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF ELK GROVE:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

cc: Dissemination Agent

**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

Elk Grove Finance Authority  
8401 Laguna Palms Way  
Elk Grove, California 95758

*OPINION:*     \$ \_\_\_\_\_ Elk Grove Finance Authority 2018 Lease Revenue Bonds  
                  (Capital Facilities)

Members of the Board of the Directors:

We have acted as bond counsel to the Elk Grove Finance Authority (the "Authority") in connection with the issuance by the Authority of its Elk Grove Finance Authority 2018 Lease Revenue Bonds (Capital Facilities) in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds"), under an Indenture of Trust dated as of April 1, 2018 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee, and under the provisions of Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the California Government Code (the "Bond Law"). The Bonds are secured by Revenues as defined in the Indenture, including certain lease payments made by the City of Elk Grove (the "City") under a Lease Agreement dated as of April 1, 2018 (the "Lease") between the Authority as lessor and the City as lessee. We have examined the Indenture, the Lease, the Bond Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture, the Lease and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation. Based upon our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California, with power to enter into the Indenture and the Lease, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.
3. The Indenture and the Lease have been duly approved by the Authority and constitute the legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.
4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as that term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.



5. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Lease and to perform the agreements on its part contained therein. The Lease has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and 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 sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted in the Indenture, the Lease and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority and the City have full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Lease may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the "Issuer") nor the trustee appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, 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. 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.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (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 issue of the Securities, each 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 has a Standard & Poor's rating of AA+. 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](http://www.dtcc.com). *The information contained on this Internet site is not incorporated herein by reference.*

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 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer 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 Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

**CERTIFICATION**  
**ELK GROVE FINANCE AUTHORITY RESOLUTION NO. FA2018-01**

STATE OF CALIFORNIA       )  
COUNTY OF SACRAMENTO    )     ss  
CITY OF ELK GROVE         )

*I, Jason Lindgren, Secretary of the Finance Authority of the City of Elk Grove, California, do hereby certify that the foregoing resolution was duly introduced, approved, and adopted by the Board of Directors of the Elk Grove Finance Authority at a regular meeting of the Elk Grove Finance Authority held on March 14, 2018 by the following vote:*

**AYES:           BOARDMEMBERS:       Ly, Suen, Hume, Nguyen**

**NOES :         BOARDMEMBERS:       Detrick**

**ABSTAIN :     BOARDMEMBERS:       None**

**ABSENT:       BOARDMEMBERS:       None**

  
\_\_\_\_\_  
**Jason Lindgren, Secretary**  
**Elk Grove Finance Authority**