



City Council/Financing Authority Staff Report

DATE: April 11, 2012

SUBJECT: APPROVAL OF DOWNTOWN REVITALIZATION PROJECT
PHASE I FINANCING

FROM: David H. Ready, City Manager/Executive Director

BY: Thomas Wilson, Assistant City Manager

SUMMARY:

In September, 2011 the City entered into a Project Financing Agreement with Wessman Development Company ("Developer") for the first phase of the Developer's Downtown Revitalization Plan, agreeing to acquire certain property and provide funding for certain infrastructure. The City's proposed method of providing the public financing for such project costs is through the issuance of lease revenue bonds. Approval of the financing requires that both the City and the City of Palm Springs Financing Authority adopt resolutions after the City Council conducts a public hearing.

If approved, the resolutions would authorize (1) distribution of a preliminary official statement in connection with the bond sale, (2) sale of a principal amount bonds not-to-exceed \$47 million on certain terms and conditions and (3) execution of various documents in connection with the bond sale by the City Manager.

RECOMMENDATION:

Acting as the City Council:

- 1) Open the Public Hearing for public testimony.
- 2) Approve Resolution No. ____ "RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS APPROVING SITE LEASE AND LEASE AGREEMENT IN CONNECTION WITH THE ISSUANCE CITY OF PALM SPRINGS FINANCING AUTHORITY LEASE REVENUE BONDS, 2012 SERIES B (DOWNTOWN REVITALIZATION PROJECT), APPROVING SALE OF SUCH BONDS AND OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

Acting as the Financing Authority Board:

3) Approve Resolution No. _____ "A RESOLUTION OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY AUTHORIZING ISSUANCE OF CITY OF PALM SPRINGS FINANCING AUTHORITY LEASE REVENUE BONDS, 2012 SERIES B (DOWNTOWN REVITALIZATION PROJECT), APPROVING AND AUTHORIZING AND DIRECTING EXECUTION OF INDENTURE OF TRUST AND OTHER DOCUMENTS RELATING THERETO, AUTHORIZING SALE OF SUCH BONDS, APPROVING OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

STAFF ANALYSIS:

Project Finance Agreement

The Downtown Revitalization Project will be developed through a public-private partnership of the City and Wessman Development (the "Developer") under the terms of a Project Financing Agreement ("Agreement").

The estimated total amount of City participation, including the construction of public infrastructure and the acquisition of certain public properties, would be approximately \$43 million. The City has structured its contribution to the cost of the project as follows:

1. The City will receive title to certain real property at the site. This property includes: (1) the above-ground parking structure, as well as the surface and underground level of the parking at the southwest corner of the site; (2) the underground parking structure beneath the developed shopping center; (3) the two possible "museum expansion" sites; (4) the improved streets created by the project described as the Museum Street, Andreas Road and the Belardo Road extension; and (5) new public restrooms.
2. The Developer would undertake the construction of the streets and the improvement of the parking facilities on behalf of the City, at an estimated cost of \$11 million.
3. The City's funds of \$32 million would be deposited in a project-related escrow account ("Private Improvement Escrow") to be used solely for project-related costs such as construction, architecture, engineering, and design. The Developer's funds would come from personal resources such as equity, and would be secured by a personal guarantee backed by a Deed of Trust on the remaining property on the Site.

Other aspects of the Agreement include:

- **Term.** The Phase I of the Revitalization Plan sets a schedule for substantial completion of the core and shell improvements (retail and office along Palm Canyon, the street infrastructure, the museum expansion sites, and the movie theaters) by December 2014.
- **Demolition.** The Bank of America building has been demolished in accordance with the Agreement terms. The remainder of the property demolition would commence in mid-2013, at the time the Project's plans are submitted to the Building Department for building permits. Vertical construction would proceed immediately after receipt of building plans, expected to be late summer 2013.

Financing Structure

In order to fund the net project cost of \$43 million required under the Agreement, it is estimated that the City will need to issue approximately \$46 million of Lease Revenue Bonds. The table below provides the estimated size of the Bonds including funding of the project costs, bond reserve funds and costs of issuance.

Sources of Funds:

| | |
|------------------------|----------------|
| Par Amount | \$45,890,000 |
| Original Issue Premium | <u>845,000</u> |
| | \$46,735,000 |

Uses of Funds:

| | |
|---------------------------|-------------------|
| Debt Service Reserve Fund | \$ 3,295,000 |
| Cost of Issuance | 315,000 |
| Underwriter Discount | 125,000 |
| Project Fund | <u>43,000,000</u> |
| | \$46,735,000 |

The debt service reserve fund is equal to one year's payment on the Bonds. A debt service reserve fund is required in order to increase bond holders' security and make the Bonds marketable. The debt service reserve fund is held by the trustee, earns interest and is returned as a credit against the final payment on the Bonds.

It is anticipated that the Bonds will be issued in May 2012 and be paid over a term of 23 years. Based on current interest rates, the effective interest rate is estimated at 4.5%, resulting in an annual debt service payment of approximately \$3,300,000 annually. The Bonds are expected to carry the City's current "A" credit rating.

The one time costs to issue the bonds are estimated at \$315,000 for fixed costs of bond counsel, financial advisor, disclosure counsel, trustee, rating agency fees, title insurance, advertising and other miscellaneous costs. The underwriter compensation of \$125,000 is in addition to this amount.

A request for proposals to underwrite the Bonds was published in the Desert Sun and in a national financial newspaper. In response, the financial advisor received 13 proposals from underwriters to underwrite the Bonds. The proposals were scored on the following factors: fees, experience with California tax-exempt bonds in general and lease revenue bonds in particular, retail marketing capability and structuring. Based on the weighted average scores, staff interviewed 3 firms, and based on those interviews, is recommending E.J. De La Rosa & Co., Inc. to underwrite the Bonds.

Method of Sale and Authorizing Resolutions

The City has financed many public improvements using Lease Revenue Bonds issued by the City of Palm Springs Financing Authority (Authority), most recently for the Convention Center and refinancing certain Convention Center debt. Staff is recommending that Lease Revenue Bonds be used as the financing method for this project as well.

Selling the Bonds through the Authority requires that the Authority enter into an Indenture of Trust with a trustee to secure the bond payments. In order to obligate the City to pay the Authority an amount equal to the debt service on the Bonds, the City will lease certain property and facilities to the Authority pursuant to a Site and Facilities Lease, and the Authority will lease the property and facilities back to the City pursuant to a Lease Agreement. This lease will secure the City's lease payments used by the Authority to pay debt service. The Authority will assign the lease payments to the trustee pursuant to an Assignment Agreement.

The value of the property to be leased under the Lease Agreement must equal at least \$46 million, equivalent to the amount of bonds being issued. To achieve this value, the assets to be leased include the parking structures and future museum sites being acquired under the Agreement, four fire stations, the corporate yard, the skate park and the building currently leased to CVEP.

Because the Bonds are being sold through the Authority, the City, as the jurisdiction where the facilities relating to the financing are located, is required to hold a public hearing before the Authority may approve a resolution authorizing the sale of the Bonds. The City must find that there will be demonstrable savings to the City from the issuance and sale of the Bonds by the Authority for the purpose of financing the Project.

The City has two alternative methods of financing the Project. The first is by the delivery of "Certificates of Participation" and the second is by the issuance of "Lease Revenue Bonds." Both financing methods are secured by a lease and the City's lease payments as described above, but Certificates of Participation represent "fractional interests" in the lease payments. However, history shows that investors prefer general fund financings through Bonds instead of Certificates. This started after the default by the Richmond School District in the early 1990's and has been reinforced by the recent difficulties in Stockton. The financial advisor has advised that issuing bonds instead of certificates of participation can lower financing costs by at least 5 basis points (0.05%). This would reduce the interest costs of this current financing by at least \$400,000 over the life of the Bonds, making it more cost effective to issue and sell the Bonds for this Project through the Authority.

In order to authorize the issuance of the Bonds, the City Council and the Authority Board have been presented with resolutions for their consideration. The City Council resolution approves the form of the following documents in connection with the financing:

- A Site and Facilities Lease between the City and the Authority;
- A Lease Agreement between the City and the Authority;
- A Bond Purchase Agreement between the City, the Authority and E.J. De La Rosa & Co., Inc.; and
- A Preliminary Official Statement

The City Council resolution also approves the distribution of the preliminary official statement relating to the Bonds.

The Authority Board resolution approves the form of the following documents:

- A Site and Facilities Lease between the City and the Authority;
- A Lease Agreement between the City and the Authority;
- An Indenture of Trust between the Authority and the Trustee (Bank of New York Mellon Trust Company);
- An Assignment Agreement between the Authority and the Trustee;
- A Bond Purchase Agreement between the City, the Authority and E.J. De La Rosa & Co., Inc.; and
- A Preliminary Official Statement

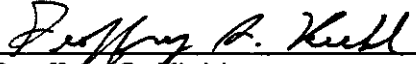
The Authority Board resolution also approves the distribution of the preliminary official statement. This resolution also appoints Harrell & Company Advisors to act as financial advisor pursuant to its existing contract and appoints Jones Hall to act as bond counsel and Fulbright & Jaworski to act as disclosure counsel as provided in their engagement letters on file with the City Clerk.

Both resolutions authorize the execution of the Bond Purchase Agreement by the City Manager and Authority Executive Director, within certain parameters. These parameters are: (1) the par amount of the bonds cannot exceed \$47,000,000, (2) the true interest cost of the financing must be less than 5% and (3) the underwriters' discount cannot exceed 0.3% of the par amount of the Bonds.

The preliminary official statement was prepared by staff and the financial advisor, with input from the City's bond counsel and disclosure counsel. The City Council's review of the description of the City and the City's Financial Information contained in the preliminary official statement is requested prior to printing on or about April 16, 2012.

FISCAL IMPACT:

The estimated annual debt service on the Bonds is approximately \$3,300,000. The City will receive Measure J sales tax beginning in June 2012 to provide additional funding to the General Fund, which may be used to pay debt service on the Bonds.

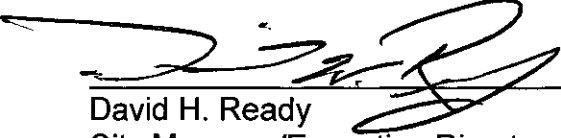


Geoffrey S. Kiehl
Finance Director and Treasurer




Douglas Holland
City Attorney

Approved By:



David H. Ready
City Manager/Executive Director



Thomas Wilson
Assistant City Manager

Attachments:

- Resolutions
- Preliminary Official Statement
- Site and Facilities Lease
- Lease Agreement
- Indenture of Trust
- Assignment Agreement
- Bond Purchase Agreement
- Jones Hall Engagement Letter
- Fulbright & Jaworski Engagement Letter

RESOLUTION NO.

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS APPROVING SITE LEASE AND LEASE AGREEMENT IN CONNECTION WITH THE ISSUANCE CITY OF PALM SPRINGS FINANCING AUTHORITY LEASE REVENUE BONDS, 2012 SERIES B (DOWNTOWN REVITALIZATION PROJECT), APPROVING SALE OF SUCH BONDS AND OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the City of Palm Springs Financing Authority (the "Authority") is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City"), and the Community Redevelopment Agency of the City of Palm Springs, as amended, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to lease and lease back public capital improvements of the City and to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the City; and

WHEREAS, the Authority intends to issue its lease revenue bonds (the "Bonds") pursuant to the Bond Law in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

WHEREAS, for the purpose of providing funds to finance the Project, the Authority has determined to issue the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)" pursuant to an Indenture of Trust, dated as of April 1, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Indenture");

WHEREAS, the City proposes to lease certain sites and facilities to the Authority (the "Leased Property") pursuant to a Site and Facilities Lease, dated as of April 1, 2012, by and between the City, as lessor, and the Authority, as lessee;

WHEREAS, the City and Authority will enter into a Lease Agreement, dated as of April 1, 2012, by and between the Authority, as lessor, and the City, as lessee, pursuant to which the City will lease back the Leased Property from the Authority and will make lease payments (the "Lease Payments") for use and possession of the Leased Property;

WHEREAS, the Authority will assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under the Lease Agreement, pursuant to an Assignment Agreement, dated as of April 1, 2012, by and between the Authority

Resolution No.
Page 2

and the Trustee, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to the Lease Agreement;

WHEREAS, as a condition precedent to the issuance of the Bonds by the Authority, Section 6586.5 of the California Government Code requires that the City approve the proposed issuance of the Bonds by the Authority and that the City make certain findings with respect to such issuance, and Section 6586.5 further requires that such approval be given and findings be made only after noticed public hearing thereon;

WHEREAS, the City Council has duly held such public hearing after notice thereof having been duly given and hereby determines that there are significant public benefits to the City from the proposed financing in that there will be demonstrable savings to the City from the issuance and sale of the Bonds by the Authority for the purpose of financing the Project, all as evidenced by the calculations provided by the Harrell & Company, Advisors LLP, Financial Advisor to the City and the Authority with respect to the issuance of the Bonds by the Authority on file in the official records of the City;

WHEREAS, the Authority proposes to sell the Bonds to E.J. De La Rosa & Co., Inc. (the "Underwriter") all on the terms and conditions provided in the form of a Bond Purchase Agreement (the "Bond Purchase Agreement") on file with the City Clerk;

WHEREAS, the Authority has caused to be prepared a form of Official Statement describing the Bonds, the Authority and the City, the preliminary form of which is on file with the City Clerk (the "Official Statement"); and

WHEREAS, the City Council has duly considered the foregoing described transactions and has reviewed the Site Lease, the Lease Agreement, the Bond Purchase Agreement and the Official Statement, and desires at this time to approve the foregoing as in the public interests of the Authority and the City;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Palm Springs, as follows:

Section 1. Approval of the Bonds. The City Council hereby approves the issuance by the Authority of the Bonds in the principal amount of not to exceed \$47,000,000 under and pursuant to the Indenture.

Section 2. Approval of the Site Lease. The City Council hereby authorizes and approves the lease of the Leased Property to the Authority pursuant to the Site Lease. The City Council hereby approves the Site Lease in substantially the form on file with the City Clerk together with any additions thereto or changes therein (including, but not limited to, the amount of the advance rental payment to be paid to the City for the Leased Property), deemed necessary or advisable by the City Manager. The City Manager is hereby authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest and affix to, the final form of the Site Lease for and in the name and on behalf of the City and the execution thereof shall be conclusive evidence of the City Council's approval of any such additions and changes. The City Council hereby authorizes the delivery and performance of the Site Lease.

Section 3. Approval of the Lease Agreement. The City Council hereby authorizes and approves the lease back of the Leased Property to the City pursuant to the Lease Agreement. The City Council hereby approves the Lease Agreement in substantially the form on file with the City Clerk together with any additions thereto or changes therein (including, but not limited to, the final lease payment schedule and the compliance with the requirements of any rating agency issuing a rating on the Bonds and any financial institution which may provide credit enhancement for all or any portion of the Bonds) deemed necessary or advisable by the City Manager. The City Manager is hereby authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest to, the final form of the Lease Agreement for and in the name and on behalf of the City and the execution thereof shall be conclusive evidence of the City Council's approval of any such additions and changes. The City Council hereby authorizes the delivery and performance of the Lease Agreement.

Section 4. Sale of the Bonds. The City Council hereby approves the sale of the Bonds by the Authority to the Underwriter pursuant to and in accordance with the Bond Purchase Agreement in substantially the form on file with the City Clerk together with any additions thereto or changes therein approved by the Authority. The City Council hereby directs the City Manager to execute and deliver the Bond Purchase Agreement on behalf of the City.

Section 5. Official Statement. The City Council hereby approves the description of the City and its finances in the preliminary Official Statement relating to the Bonds, in substantially the form on file with the City Clerk, together with any changes therein or additions thereto necessary or convenient to cause the preliminary Official Statement to describe accurately matters pertaining to the Bonds and the City. The Underwriter is hereby authorized to distribute (including in electronic form) the "near final" preliminary Official Statement in connection with the marketing of the Bonds. The City Manager is hereby authorized and directed to approve any changes in or additions to the final form of such Official Statement as they shall deem advisable to cause the final Official Statement to describe accurately the Bonds and matters contained in the Bond Purchase Agreement, the Indenture and the related proceedings and actions, and to execute and deliver (including in electronic form) the final Official Statement, together with the Continuing Disclosure Certificate, substantially in the form appended to the final Official Statement, for and in the name and on behalf of the City.

Section 6. Official Action. All actions heretofore taken by the officers and agents of the City with respect to the issuance of the Bonds are hereby approved, confirmed and ratified. The Mayor, the Mayor Pro-Tem, the City Manager, the Finance Director, the City Attorney, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, including agreements in customary form providing for the investment of the proceeds of the Bonds, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the sale, issuance and delivery of the Bonds to the Underwriter.

Section 7. Effective Date. This resolution shall take effect from and after the date of approval and adoption thereof.

ADOPTED THIS 11th DAY OF APRIL, 2012.

David H. Ready, City Manager

ATTEST:

James Thompson, City Clerk

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, JAMES THOMPSON, City Clerk of the City of Palm Springs certify that Resolution No, _____ is a full, true and correct copy, and was duly adopted at a regular meeting of the City Council of the City of Palm Springs on the 11th day of April, 2012, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

RESOLUTION NO.

A RESOLUTION OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY AUTHORIZING ISSUANCE OF CITY OF PALM SPRINGS FINANCING AUTHORITY LEASE REVENUE BONDS, 2012 SERIES B (DOWNTOWN REVITALIZATION PROJECT), APPROVING AND AUTHORIZING AND DIRECTING EXECUTION OF INDENTURE OF TRUST AND OTHER DOCUMENTS RELATING THERETO, AUTHORIZING SALE OF SUCH BONDS, APPROVING OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the City of Palm Springs Financing Authority (the "Authority") is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City"), and the Community Redevelopment Agency of the City of Palm Springs, as amended, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to lease and lease back public capital improvements of the City and to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the City; and

WHEREAS, the Authority intends to issue its lease revenue bonds (the "Bonds") pursuant to the Bond Law in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

WHEREAS, for the purpose of providing funds to finance the Project, the Authority has determined to issue the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)" pursuant to an Indenture of Trust, dated as of April 1, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Indenture");

WHEREAS, the City proposes to lease certain sites and facilities to the Authority (the "Leased Property") pursuant to a Site and Facilities Lease, dated as of April 1, 2012, by and between the City, as lessor, and the Authority, as lessee;

WHEREAS, the City and Authority will enter into a Lease Agreement, dated as of April 1, 2012, by and between the Authority, as lessor, and the City, as lessee, pursuant to which the City will lease back the Leased Property from the Authority and will make lease payments (the "Lease Payments") for use and possession of the Leased Property;

WHEREAS, the Authority will assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under the Lease Agreement, pursuant to an Assignment Agreement, dated as of April 1, 2012, by and between the Authority

and the Trustee, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to the Lease Agreement;

WHEREAS, as a condition precedent to the issuance of the Bonds by the Authority, Section 6586.5 of the California Government Code requires that the City approve the proposed issuance of the Bonds by the Authority and that the City make certain findings with respect to such issuance, and Section 6586.5 further requires that such approval be given and findings be made only after noticed public hearing thereon;

WHEREAS, the City has duly held such public hearing, has made such findings and has approved the issuance of the Bonds by the Authority; and

WHEREAS, the Authority proposes to sell the Bonds to E.J. De La Rosa & Co., Inc. (the "Underwriter") all on the terms and conditions provided in the form of a Bond Purchase Agreement (the "Bond Purchase Agreement") on file with the Secretary;

WHEREAS, the Authority has, with the assistance of its Financial Advisor, Harrell & Company, Advisors, LLC, caused to be prepared a form of Official Statement describing the Bonds, the Authority and the City, the preliminary form of which is on file with the Secretary (the "Official Statement"); and

WHEREAS, the Board of Directors of the Authority has duly considered the foregoing described transactions and has reviewed the Indenture, the Site Lease, the Lease Agreement, the Assignment Agreement, the Bond Purchase Agreement and the Official Statement, and desires at this time to approve the foregoing as in the public interests of the Authority and the City;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the City of Palm Springs Financing Authority, as follows:

Section 1. Issuance of Bonds; Approval of Indenture. The Authority hereby authorizes the issuance of the Bonds in the principal amount of not to exceed \$47,000,000 under and pursuant to the Indenture. The Board of Directors hereby approves the Indenture in substantially the form thereof on file with the Secretary together with any additions thereto or changes therein deemed necessary or advisable by the Executive Director, including, without limitation, the insertion of the final principal amount and annual maturity amounts of the Bonds, the final interest rates to be borne by the Bonds, as set forth in the executed Bond Purchase Agreement, and the compliance with the requirements of any rating agency issuing a rating on the Bonds and any financial institution which may provide credit enhancement for all or any portion of the Bonds. Execution of the Indenture shall be deemed conclusive evidence of the Board of Directors' approval of such additions or changes. The Executive Director and Secretary of the Authority are hereby authorized and directed to execute and attest to the Indenture for and in the name and on behalf of the Authority. The Board of Directors hereby authorizes the delivery and performance of the Indenture.

Section 2. Approval of the Site Lease. The Board of Directors hereby authorizes and approves the lease of the Leased Property to the Authority pursuant to

the Site Lease. The Board of Directors hereby approves the Site Lease in substantially the form on file with the Secretary together with any additions thereto or changes therein (including, but not limited to, the amount of the advance rental payment to be paid to the City for the Leased Property) deemed necessary or advisable by the Executive Director. The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest and affix to, the final form of the Site Lease for and in the name and on behalf of the Authority and the execution thereof shall be conclusive evidence of the Board of Directors' approval of any such additions and changes. The Board of Directors hereby authorizes the delivery and performance of the Site Lease.

Section 3. Approval of the Lease Agreement. The Board of Directors hereby authorizes and approves the lease of the Leased Property back to the City pursuant to the Lease Agreement. The Board hereby approves the Lease Agreement in substantially the form on file with the Secretary together with any additions thereto or changes therein (including, but not limited to, the final lease payment schedule and the compliance with the requirements of any rating agency issuing a rating on the Bonds and any financial institution which may provide credit enhancement for all or any portion of the Bonds) deemed necessary or advisable by the Executive Director. The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest to, the final form of the Lease Agreement for and in the name and on behalf of the Authority and the execution thereof shall be conclusive evidence of the Board of Directors' approval of any such additions and changes. The Board of Directors hereby authorizes the delivery and performance of the Lease Agreement.

Section 4. Approval of the Assignment Agreement. The Board of Directors hereby authorizes and approves the assignment of the City's lease payments for the Leased Property to the Trustee pursuant to the Assignment Agreement. The Board of Directors hereby approves the Assignment Agreement in substantially the form on file with the Secretary together with any additions thereto or changes therein deemed necessary or advisable by the Executive Director. The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest to, the final form of the Assignment Agreement for and in the name and on behalf of the Authority and the execution thereof shall be conclusive evidence of the Board of Directors' approval of any such additions and changes. The Board of Directors hereby authorizes the delivery and performance of the Assignment Agreement.

Section 5. Sale of Bonds. The Board of Directors hereby approves the sale of the Bonds to the Underwriter pursuant to and in accordance with the Bond Purchase Agreement in substantially the form on file with the Secretary together with any additions thereto or changes therein approved by either the Executive Director, or his written designee, whose execution thereof shall be conclusive evidence of such approval. The Board of Directors hereby directs the Executive Director, or his written designee, to accept, for and in the name and on behalf of the Authority, an offer from the Underwriter to purchase the Bonds from the Authority and to execute the Bond Purchase Agreement; provided, however, that the true interest cost payable with

respect to the Bonds shall not exceed five percent (5.00%) and the purchase price paid by the Underwriters for the purchase of the Bonds shall be not less than ninety-nine and seven-tenths percent (99.70%) of the par amount thereof, excluding any original issue discount on the Bonds.

Section 6. Official Statement. The Authority hereby approves the preliminary Official Statement describing the Bonds, in substantially the form on file with the Secretary, together with any changes therein or additions thereto necessary or convenient to cause the preliminary Official Statement to describe accurately matters pertaining to the Bonds and the Executive Director is authorized and directed on behalf of the Authority to review the final form of preliminary Official Statement and to deem the preliminary Official Statement "near final" pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, prior to its distribution by the Underwriters. The Underwriter is hereby authorized to distribute (including in electronic form) the "near final" preliminary Official Statement in connection with the marketing of the Bonds. The Executive Director is hereby authorized and directed to approve any changes in or additions to the final form of such Official Statement as they shall deem advisable to cause the final Official Statement to describe accurately the Bonds and matters contained in the Bond Purchase Agreement, the Indenture and the related proceedings and actions, and to execute and deliver (including in electronic form) the final Official Statement, together with the Continuing Disclosure Certificate, substantially in the form appended to the final Official Statement, for and in the name and on behalf of the Authority.

SECTION 7. Appointments. The financing consultant firm of Harrell & Company Advisors, LLC, Orange, California, is hereby appointed as financial advisor to the Authority with respect to the Bonds and the law firm of Jones Hall, A Professional Law Corporation, San Francisco, California, is hereby appointed as Bond Counsel, and the law firm of Fulbright & Jaworski L.L.P., Los Angeles, California, is hereby appointed as Disclosure Counsel with respect to the Bonds, compensation and expenses for the foregoing services to be as provided in agreements on file with the City Clerk or as approved by the Executive Director upon delivery of the Bonds.

Section 8. Official Action. All actions heretofore taken by the officers and agents of the Authority with respect to the issuance of the Bonds are hereby approved, confirmed and ratified. The Chairman, the Executive Director, the Authority Treasurer, the General Counsel of the Authority, the Secretary and any and all other officers of the Authority are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, including requisitions for the payment of costs of issuance of the Bonds, agreements, including agreements in customary form providing for the investment of the proceeds of the Bonds, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the sale, issuance and delivery of the Bonds to the Underwriter. The Board hereby confirms that the City Manager of the City is the Executive Director of the Authority, the City Clerk of the City is the Secretary of the Authority and the Finance Director of the City is the Authority Treasurer.

Section 9. Effective Date. This resolution shall take effect from and after the date of approval and adoption thereof.

ADOPTED THIS 11th DAY OF APRIL, 2012.

David H. Ready, Executive Director

ATTEST:

James Thompson, Secretary

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, JAMES THOMPSON, Secretary of the City of Palm Springs Financing Authority certify that Resolution No, _____ is a full, true and correct copy, and was duly adopted at a regular meeting of the City of Palm Springs Financing Authority on the 11th day of April, 2012, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification of the securities laws of such jurisdiction.

NEW ISSUE

RATING

BOOK-ENTRY-ONLY

S&P: __

(See "CONCLUDING INFORMATION - Rating on the Bonds" herein)

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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption" herein.

RIVERSIDE COUNTY

STATE OF CALIFORNIA

\$47,000,000*

**CITY OF PALM SPRINGS FINANCING AUTHORITY
LEASE REVENUE BONDS, 2012 SERIES B
(DOWNTOWN REVITALIZATION PROJECT)**

Dated: Date of Delivery

Due: June 1, as Shown on the Inside Front Cover.

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) (the "Bonds") are being issued to (i) finance acquisition and construction of public improvements, (ii) fund a reserve account for the Bonds and (iii) pay the costs incurred in connection with the issuance of the Bonds. The Bonds are payable from the revenues pledged under the Indenture of Trust, as defined herein, consisting primarily of lease payments to be made by the City of Palm Springs (the "City") to the City of Palm Springs Financing Authority (the "Authority") as rental for certain City owned property (the "Leased Property") pursuant to a Lease Agreement, as defined herein, and from certain funds held under the Indenture of Trust and insurance or condemnation awards. The City is required under the Lease Agreement to make payments (the "Lease Payments") in each fiscal year in consideration of the use and possession of the Leased Property from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the Bonds, subject to abatement, as described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2012, until maturity or earlier redemption. See "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein.

The Bonds do not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments 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. The obligation of the City to pay Lease Payments does not constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the City and the Authority by the City Attorney, and by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel and for the Underwriter by its Counsel, _____, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about May 16, 2012 through the facilities of The Depository Trust Company (see "APPENDIX E - DTC AND THE BOOK-ENTRY-ONLY SYSTEM" herein).

The date of the Official Statement is _____, 2012.

* Preliminary, subject to change.

\$47,000,000*
CITY OF PALM SPRINGS FINANCING AUTHORITY
LEASE REVENUE BONDS, 2012 SERIES B
(DOWNTOWN REVITALIZATION PROJECT)

MATURITY SCHEDULE
(Base CUSIP®† 69666J)

| Maturity Date | Principal | Interest | Reoffering | CUSIP®† |
|----------------------|----------------------|--------------------|---------------------|----------------|
| <u>June 1</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | |
| 2013 | | | | |
| 2014 | | | | |
| 2015 | | | | |
| 2016 | | | | |
| 2017 | | | | |
| 2018 | | | | |
| 2019 | | | | |
| 2020 | | | | |
| 2021 | | | | |
| 2022 | | | | |
| 2023 | | | | |
| 2024 | | | | |
| 2025 | | | | |

\$ _____ % Term Bonds maturing June 1, 2035, Yield _____ % CUSIP®† _____

* Preliminary, subject to change.

† CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2012 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City, the Authority nor the Underwriter takes any responsibility for the accuracy of such numbers.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and 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 Authority or the City in any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, 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.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations in connection with the offer or sale of the Bonds 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 the Authority, the City, the Financial Advisor or the Underwriter. 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.

Involvement of Underwriter. 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 a 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.

Information Subject to Change. 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 Authority or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate 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 inside front 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.

**CITY OF PALM SPRINGS FINANCING AUTHORITY
PALM SPRINGS, CALIFORNIA**

CITY COUNCIL/AUTHORITY BOARD MEMBERS

Steve Pougnet, *Mayor*
Ginny Foat, *Mayor Pro-Tem*
Rick Hutcheson, *Council Member*
Christopher Mills, *Council Member*
Paul Lewin, *Council Member*

CITY STAFF

David H. Ready, Esq., Ph.D., *City Manager*
Thomas Wilson, *Assistant City Manager*
Geoffrey S. Kiehl, *Director of Finance and Treasurer*
David J. Barakian, *Director of Public Works/City Engineer*
John S. Raymond, *Director of Community & Economic Development*
James L. Thompson, *City Clerk*

PROFESSIONAL SERVICES

Bond Counsel

Jones Hall
A Professional Law Corporation
San Francisco, California

Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

City Attorney

Woodruff, Spradlin & Smart
Orange, California

Financial Advisor

Harrell & Company Advisors, LLC
Orange, California

Underwriter

[TBD]

Underwriter's Counsel

[TBD]

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

TABLE OF CONTENTS

| | |
|--|--|
| <p>INTRODUCTION 1</p> <p style="padding-left: 20px;">The Authority 1</p> <p style="padding-left: 20px;">The City 2</p> <p style="padding-left: 20px;">Security and Sources of Repayment 2</p> <p style="padding-left: 20px;">Tax Exemption 3</p> <p style="padding-left: 20px;">Professional Services 3</p> <p style="padding-left: 20px;">Offering of the Bonds 3</p> <p style="padding-left: 20px;">Information Concerning this Official Statement 4</p> <p>THE BONDS 5</p> <p style="padding-left: 20px;">General Provisions 5</p> <p style="padding-left: 20px;">Redemption 6</p> <p style="padding-left: 20px;">Scheduled Debt Service on the Bonds 8</p> <p>THE FINANCING PLAN 9</p> <p style="padding-left: 20px;">The Project 9</p> <p style="padding-left: 20px;">Estimated Sources and Uses of Funds 12</p> <p>THE LEASED PROPERTY 13</p> <p>SOURCES OF PAYMENT FOR THE BONDS 14</p> <p style="padding-left: 20px;">General 14</p> <p style="padding-left: 20px;">Lease Payments; Abatement 14</p> <p style="padding-left: 20px;">Reserve Account 15</p> <p style="padding-left: 20px;">Insurance Relating to the Property 16</p> <p style="padding-left: 20px;">Remedies on Default 16</p> <p>CITY OF PALM SPRINGS 17</p> <p style="padding-left: 20px;">General Information 17</p> <p style="padding-left: 20px;">General Organization 17</p> <p style="padding-left: 20px;">Governmental Services 18</p> <p style="padding-left: 20px;">Community Information 18</p> <p style="padding-left: 20px;">Transportation 19</p> <p style="padding-left: 20px;">Population 20</p> <p style="padding-left: 20px;">Per Capita Income 21</p> <p style="padding-left: 20px;">Employment 22</p> <p style="padding-left: 20px;">Commercial Activity 25</p> <p style="padding-left: 20px;">Building Activity 27</p> <p>FINANCIAL INFORMATION 28</p> <p style="padding-left: 20px;">Budgetary Process and Administration 28</p> <p style="padding-left: 20px;">Appropriations Limit 28</p> <p style="padding-left: 20px;">General Fund Revenues and Expenditures 28</p> <p style="padding-left: 20px;">Ad Valorem Property Taxes 31</p> <p style="padding-left: 20px;">Taxable Property and Assessed Valuation 32</p> <p style="padding-left: 20px;">Redevelopment Agencies 33</p> <p style="padding-left: 20px;">Largest Taxpayers 34</p> <p style="padding-left: 20px;">State Legislative Shift of Property Tax Allocation 35</p> <p style="padding-left: 20px;">Local Taxes 36</p> | <p style="padding-left: 20px;">Motor Vehicle License Fees 37</p> <p style="padding-left: 20px;">Retirement Programs 37</p> <p style="padding-left: 20px;">Other Post Employment Benefits 41</p> <p style="padding-left: 20px;">Employee Relations and Collective Bargaining 42</p> <p style="padding-left: 20px;">Risk Management 43</p> <p style="padding-left: 20px;">City Investment Policy and Portfolio 43</p> <p style="padding-left: 20px;">Obligations of the City 44</p> <p style="padding-left: 20px;">Direct and Overlapping Debt 45</p> <p style="padding-left: 20px;">Financial Statements 47</p> <p>RISK FACTORS 54</p> <p style="padding-left: 20px;">The Lease Payments 54</p> <p style="padding-left: 20px;">State Budget; Redevelopment Agency Legislation 55</p> <p style="padding-left: 20px;">Limited Recourse on Default 62</p> <p style="padding-left: 20px;">Constitutional Limitation on Taxes and Expenditures 62</p> <p style="padding-left: 20px;">Early Redemption Risk 67</p> <p style="padding-left: 20px;">Loss of Tax Exemption 67</p> <p style="padding-left: 20px;">IRS Audit of Tax-Exempt Bond Issues 67</p> <p style="padding-left: 20px;">Secondary Market Risk 67</p> <p>LEGAL MATTERS 68</p> <p style="padding-left: 20px;">Enforceability of Remedies 68</p> <p style="padding-left: 20px;">Approval of Legal Proceedings 68</p> <p style="padding-left: 20px;">Tax Exemption 68</p> <p style="padding-left: 20px;">Absence of Litigation 69</p> <p>CONCLUDING INFORMATION 70</p> <p style="padding-left: 20px;">Rating on the Bonds 70</p> <p style="padding-left: 20px;">Underwriting 70</p> <p style="padding-left: 20px;">The Financial Advisor 70</p> <p style="padding-left: 20px;">Continuing Disclosure 70</p> <p style="padding-left: 20px;">Additional Information 71</p> <p style="padding-left: 20px;">References 71</p> <p style="padding-left: 20px;">Execution 71</p> <p>APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS</p> <p>APPENDIX B - CITY AUDITED FINANCIAL STATEMENTS</p> <p>APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE</p> <p>APPENDIX D - FORM OF BOND COUNSEL'S OPINION</p> <p>APPENDIX E - DTC AND THE BOOK-ENTRY- ONLY SYSTEM</p> |
|--|--|

OFFICIAL STATEMENT

\$47,000,000*

CITY OF PALM SPRINGS FINANCING AUTHORITY LEASE REVENUE BONDS, 2012 SERIES B (DOWNTOWN REVITALIZATION PROJECT)

This Official Statement which includes the cover page and appendices (the "Official Statement"), is provided to furnish certain information concerning the sale of the City of Palm Springs Financing Authority (the "Authority") Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) (the "Bonds"), in the aggregate principal amount of \$47,000,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "RISK FACTORS" herein).

The Authority

The City of Palm Springs Financing Authority (the "Authority") is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Joint Powers Act"). The City of Palm Springs (the "City"), and the Community Redevelopment Agency of the City of Palm Springs (the "Agency"), formed the Authority by the execution of a joint exercise of powers agreement ("JPA Agreement") on February 1, 1991. Pursuant to the Joint Powers Act, the Authority is authorized to issue lease revenue bonds to provide funds to acquire or construct and to refinance public capital improvements, such revenue bonds to be repaid from the lease payments for such improvements, such as the lease payments described herein.

The Authority is governed by a five-member Board which consists of all members of the City Council. The Mayor serves as the Chairman of the Authority. The City Manager acts as the Executive Director, the City Clerk acts as the Secretary, and the City's Director of Finance and Treasurer acts as the Treasurer of the Authority.

The State Legislature approved a bill, AB X1 26, during the 2011/12 State budget process, which eliminates redevelopment agencies State-wide. The California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the "Court"), requesting the Court to review the constitutionality of AB X1 26. On December 29, 2011, the Court issued its opinion. The Court substantially upheld AB X1 26 and as a result of the decision, all California redevelopment agencies, including the Agency, were dissolved as of February 1, 2012, and, certain of the Agency's rights and obligations were transferred to the City acting as the successor agency to the Agency on that date. Bond Counsel has determined that the dissolution of the Agency, and the assignment of the JPA Agreement to the City acting as successor agency to the Agency, will not affect the validity of the JPA Agreement. See "RISK FACTORS - State Budget; Redevelopment Agency Legislation" herein.

* Preliminary, subject to change.

The City

The City was incorporated as a general law city on April 20, 1938. It became a charter city on July 12, 1994. The City encompasses 96.2 square miles in Central Riverside County. The City is located 108 miles east of downtown Los Angeles and 120 miles west of the Arizona border. Neighboring communities include Palm Desert, Rancho Mirage, Desert Hot Springs and Cathedral City (see "CITY OF PALM SPRINGS" herein).

Security and Sources of Repayment

The Bonds are secured under an Indenture of Trust, dated as of April 1, 2012, (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee") (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein).

The Bonds are payable from the revenues pledged under the Indenture. The revenues consist primarily of lease payments (the "Lease Payments") to be made by the City to the Authority as the rental for downtown parking facilities and land to be acquired with proceeds of the Bonds, and certain other City-owned property (the "Leased Property") and from certain funds held under the Indenture and investment earnings thereon, and from net proceeds of insurance or condemnation awards (collectively with the Lease Payments, the "Revenues").

Pursuant to a Site and Facilities Lease, dated as of April 1, 2012 (the "Site Lease"), by and between the Authority and the City, the City has leased the Leased Property to the Authority. The Authority has subleased the Leased Property to the City under the Lease Agreement, dated as of April 1, 2012, by and between the City and the Authority (the "Lease Agreement"). The Lease Payments are to be made pursuant to the Lease Agreement.

Under the Lease Agreement and, subject to abatement, the City is required to make the Lease Payments from legally available funds in amounts calculated to be sufficient to pay principal of and interest on the Bonds when due. The City has covenanted in the Lease Agreement to take such actions as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments subject to complete or partial abatement of such Lease Payments resulting from a taking of the Leased Property (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Leased Property. All of the Authority's right, title and interest in and to the Lease Agreement (apart from certain rights to receive Additional Payments, as defined therein, to the extent payable to the Authority and to indemnification), including the right to receive Lease Payments under the Lease Agreement, are assigned to the Trustee under the Indenture and Assignment Agreement, dated April 1, 2012 (the "Assignment Agreement"), for the benefit of Bondholders.

For a summary of the Indenture and the Lease Agreement, see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings given them in "APPENDIX A."

In general, the City is required under the Lease Agreement to pay to the Trustee specified amounts for use and possession of the Leased Property which amounts are calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds. The City is also required to pay any taxes and assessments levied on the Leased Property and all costs of maintenance and repair of the Leased Property. Except for the Authority's right, title and interest in and to the Lease Payments and otherwise to the Lease Agreement which have been assigned to the Trustee, no funds or properties of the Authority or the City are pledged to or otherwise liable for the obligations of the Authority (see "RISK FACTORS" herein).

The obligation of the City to pay Lease Payments 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 pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Tax Exemption

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (“Bond Counsel”), under existing law, and assuming certain representations and compliance with certain covenants and requirements described herein, the 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 calculating the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the interest on the Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS - Tax Exemption” herein.

Professional Services

The legal proceedings relating to the issuance of the Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the City and the Authority by Woodruff, Spradlin & Smart, Orange, California as City Attorney and Fulbright & Jaworski L.L.P., Los Angeles, California as Disclosure Counsel, and for the Underwriter by its Counsel, _____, California.

The Bank of New York Mellon Trust Company, N.A. serves as Trustee under the Indenture. The Trustee will act on behalf of the Bond Owners for the purpose of receiving all moneys required to be paid to the Trustee, to allocate, use and apply the same, to hold, receive and disburse the Lease Payments and other funds held under the Indenture, and otherwise to hold all the offices and perform all the functions and duties provided in the Indenture to be held and performed by the Trustee.

Harrell & Company Advisors, LLC (the “Financial Advisor”) advised the Authority and the City as to the financial structure and certain other financial matters relating to the Bonds.

The City’s audited general purpose financial statements for the fiscal year ended June 30, 2011, attached hereto as “APPENDIX B” have been audited by Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California (the “Auditor”). As stated in their report appearing in Appendix B, the Auditors were not requested to consent to the inclusion of their report in Appendix B, nor have they undertaken to update their report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditors with respect to any event subsequent to the date of their report.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued and delivered pursuant to the Indenture authorized by a resolution of the Authority adopted on _____, 2012. The Lease Agreement will be entered into in accordance with the laws of the State of California (the “State”), and particularly Section 37350 of the Government Code of the State.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery in New York, New York on May 16, 2012 through the facilities of The Depository Trust Company (“DTC”). See “APPENDIX E - DTC AND THE BOOK-ENTRY-ONLY SYSTEM.”

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the Authority and the City with the assistance of the Financial Advisor from sources which are believed to be reliable and such information is believed to be accurate and complete, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financial Advisor or the Disclosure Counsel. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

Preliminary Official Statement Deemed Final. The information set forth herein is in a form deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for the omission of certain information permitted to be omitted under the Rule). The information herein is subject to revision, amendment and completion in a Final Official Statement. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the City or the Authority since the date hereof.

Availability of Legal Documents. The summaries and references contained herein with respect to the Indenture, the Lease Agreement, the Site Lease, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Bonds at the trust office of the Trustee, The Bank of New York Mellon Trust Company, N.A., Los Angeles, California or from the City at 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262.

THE BONDS

General Provisions

Payment of the Bonds. The Bonds will be issued in the form of fully registered Bonds in the principal amount of \$5,000 each or any integral multiple thereof. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof, on December 1, 2012 and each June 1 and December 1 thereafter (each, an “Interest Payment Date”) until maturity. Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal on the Bonds is payable on June 1 in each of the years and in the amounts set forth on the inside front cover page hereof.

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 fifteenth day of the month preceding such Interest Payment Date (a “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. 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.

Book-Entry-Only System. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest on and principal of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds (see “APPENDIX E - DTC AND THE BOOK-ENTRY-ONLY SYSTEM” herein). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Trustee will send any notices to Bond Owners only to DTC.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered as described in the Indenture. In addition, the following provisions shall apply: interest on the Bonds will be paid 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, and 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.

Redemption

Optional Redemption. The Bonds maturing on or before June 1, 2022*, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 2022*, are subject to redemption prior to maturity, at the option of the Authority, in whole or in part among maturities on such basis as designated by the Authority and by lot within a maturity, from any available source of funds, on June 1, 2022* and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing June 1, 2035* (the "Term Bonds") are also subject to redemption in part by lot, on June 1 in each of the years as set forth in the following table, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased under the terms of the Indenture in the aggregate respective principal amounts and on the respective dates as set forth in the following table. If some but not all of the Term Bonds of any maturity have been redeemed under the optional redemption or special mandatory redemption provisions, the total amount of all future payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments in integral multiples of \$5,000 on a basis as determined by the Authority (written notice of which determination shall be given by the Authority to the Trustee).

| <u>Year</u> <u>(June 1)</u> | <u>Principal Amount</u> |
|--------------------------------|-------------------------|
|--------------------------------|-------------------------|

(maturity)

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any date, from Net Proceeds required to be used for such purpose under the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium. The Net Proceeds, as defined in the Indenture, mean 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. In accordance with this definition, and pursuant to the Lease Agreement, in the event that the proceeds from casualty insurance or a condemnation award are used to trigger a redemption of bonds (instead for the repair or the replacement of the Leased Property), such money will be used to redeem the Bonds. There can be no assurance that such proceeds will be adequate to redeem all of the Bonds (see "RISK FACTORS - The Lease Payments - Insurance" herein).

* Preliminary, subject to change.

Notice of Redemption. When redemption is authorized or required, the Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 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 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.

So long as DTC is the registered Owner of the Bonds, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Bonds. See "APPENDIX E - DTC AND THE BOOK-ENTRY-ONLY SYSTEM."

Rescission of Notice. The Authority has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of optional 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 under, and as defined in, the Indenture. The Authority and the Trustee have no liability to the 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.

Effect of Redemption. Notice of redemption having been duly given, 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 the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Partial Redemption. 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.

Scheduled Debt Service on the Bonds

The following is an annualized schedule of Lease Payments, and therefore the annual scheduled debt service on the Bonds.

| Bond Year Ending | <u>Principal</u> | <u>Interest</u> | <u>Annual Total</u> |
|-----------------------------|-------------------------|------------------------|----------------------------|
| <u>June 1</u> | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| Total | | | |

THE FINANCING PLAN

The Project

Description of the Project

The facilities and property to be acquired with and the public improvements to be funded with the proceeds of the Bonds (the “Project”) is part of the first phase of the City’s Downtown Revitalization Plan (the “Plan”). The Plan replaces an obsolete enclosed mall with new city streets throughout the 13-acre site and effectively incorporates both residential and retail uses into an urban village which presents a pedestrian-friendly environment with a number of plazas and walkways.

Upon completion, the Plan will have reintegrated a property that had been massed into a monolithic “superblock” back into the downtown street grid, resulting in a strong public gathering place comprised of well-designed public spaces linked by a total entertainment and retail environment. As detailed on the map on the following page, the Plan area is designated into a series of “blocks” for reference.

Upon completion of the Phase I improvements, new public streets, landscaping and walkways will be in place to provide user friendly pedestrian and vehicular circulation with architectural shading; all street intersections will be finished with decorative interlocking pavers and no curbs; at entry points into the Plan area, streets will contain submersible stainless steel bollards that can be electronically raised so that interior streets and other areas can be used for special events and functions as needed; and new public areas will be enhanced with public art and sculpture to serve as a place for pedestrian activities and public functions.

In addition, the building in Block A-1 may be renovated with all new exterior facades or may be demolished and reconstructed; new buildings will be in place in Blocks A-2 and C; Blocks D, E and G will be temporarily used for parking and/or landscaped open space pending future vertical development in Phase II; and, Block F will contain a new state of the art multiplex movie theater.

The Project also proposes demolishing property at the corner of Tahquitz Canyon Way and Palm Canyon Drive and placing a public space at least 90-100 feet deep there. That property has already been demolished. The entire street grid created by the project and conveyed to the City will also be designed to maximize its use for events. All of this area will be available to be closed off for special events and public activities. In addition, two properties across from the Desert Art Museum to be conveyed to the City will be open green space until the Palm Springs Art Museum, with its main facility across the street, builds on one of them. These two parcels shall be usable by the public during the period the Museum does not develop. Therefore, one outcome shall be permanent free parking for the public at the site, but another outcome would be City’s ability to assist two of the City’s most significant cultural assets – the Art Museum and the Film Festival – expand their facilities or their programming at the site.

All parking structure improvements shall be undertaken by the Developer on behalf of the City upon the City’s acquisition of the property. Work to be done in the parking structure includes replacing the fire sprinklers and lights, concrete repairs, and some minor structural work. Some reconfiguration of the parking structure shall also be necessary in order to allow the construction of Belardo Road and the new Andreas Road on grade, as well as some new building pads on grade.

Project Financing Agreement Description

The Project will be developed through a public-private partnership of the City and Wessman Development (the “Developer”) under the terms of a Project Financing Agreement (“Agreement”). The total development cost of Phase I, described above, is in excess of \$100 million, including the original property acquisition costs by the Developer. These costs include:

- Demolition of over 85% of the existing mall;
- Streets, sidewalks, and open spaces;
- Parking structure improvements and modifications;
- Construction of building improvements including Façade Improvements on building A-1, Shell Costs for Buildings A-2, C, and F, and Tenant Improvements;
- Costs related to the purchase and carrying of the property of at least \$20.0 million;
- Architecture, engineering, permits, and taxes; and
- Financing expenses, including construction interest costs and fees.

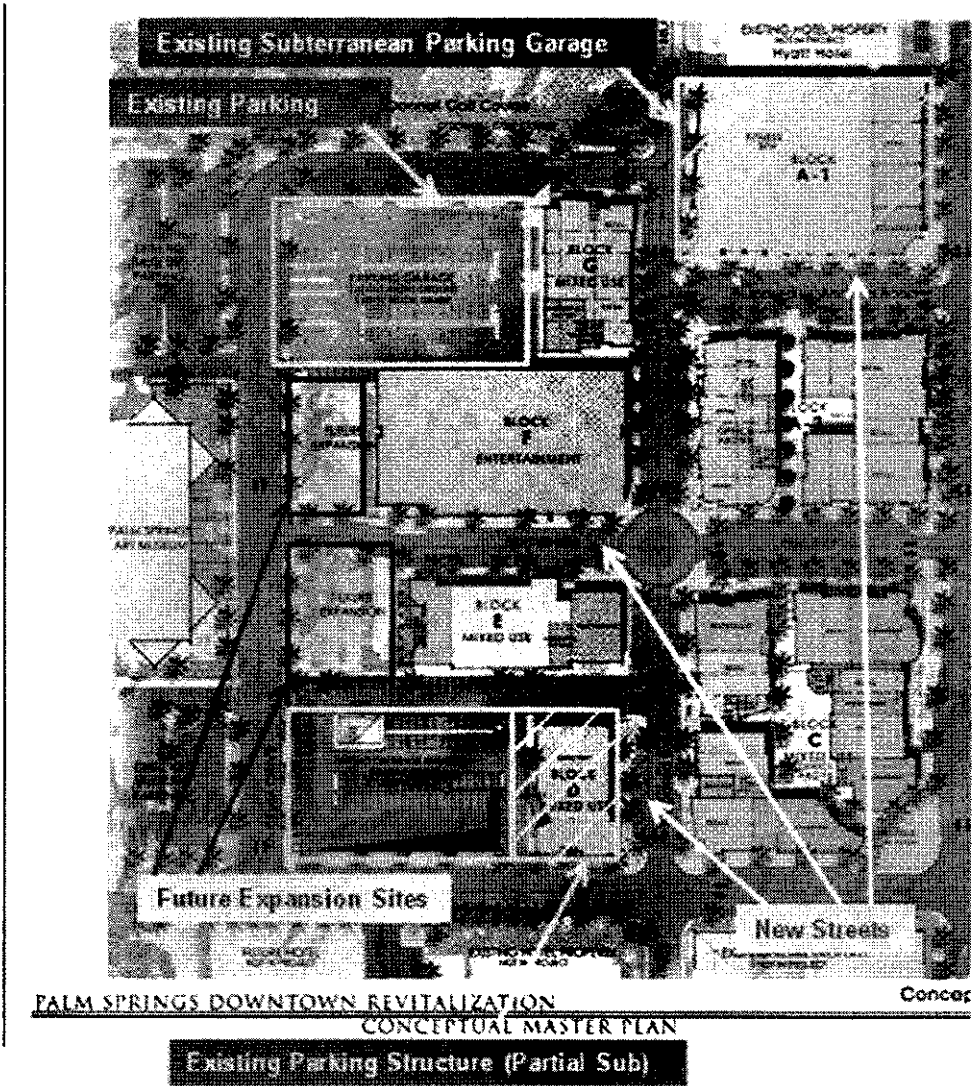
The City will be responsible for the off-site improvement costs, estimated at \$11.0 million, which will be constructed on behalf of the City by the Developer but funded through a separate Public Improvement Escrow. The estimated total amount of City participation, including the construction of public infrastructure and the acquisition of certain public properties, would be approximately \$43.0 million. The City has structured its contribution to the cost of the project as follows:

1. The City will receive title to certain real property at the site. This property includes: (1) the above-ground parking structure, as well as the surface and underground level of the parking at the southwest corner of the site; (2) the underground parking structure beneath the developed shopping center; (3) the two possible “museum expansion” sites; (4) the improved streets created by the project described as the Museum Street, Andreas Road and the Belardo Road extension; and (5) new public restrooms.
2. The Developer would undertake the construction of the streets and the improvement of the parking facilities on behalf of the City, at an estimated cost of \$11.0 million.
3. The City’s funds of \$32.0 million would be deposited in a project-related escrow account (“Private Improvement Escrow”) to be used solely for project-related costs such as construction, architecture, engineering, and design. The Developer’s funds would come from personal resources such as equity, and would be secured by a personal guarantee backed by a Deed of Trust on the remaining property on the Site.

Other aspects of the Agreement include:

- **Term.** The Phase I of the Revitalization Plan sets a schedule for substantial completion of the core and shell improvements (retail and office along Palm Canyon, the street infrastructure, the museum expansion sites, and the movie theaters) by December 2014.
- **Demolition.** The Bank of America building has been demolished in accordance with the Agreement terms. The remainder of the property demolition would commence in May, 2013, at the time the Project’s plans are submitted to the Building Department for building permits. Vertical construction would proceed immediately after receipt of building plans, expected to be late summer 2013.
- **Default.** If there is a default by the Developer, there is a provision that provides for a deed of trust to be recorded against the property and for the City to be able to acquire the remaining private property and all entitlements under the normal real estate foreclosure process.

Downtown Revitalization Conceptual Plan



Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds, together with other available funds, and will apply them as follows:

Sources of Funds

Par Amount of Bonds
Net Original Issue Premium/Discount
Available Funds

Uses of Funds

Acquisition and Construction Fund
Underwriter's Discount
Transfer Under Project Financing Agreement ⁽¹⁾
Reserve Account
Costs of Issuance Fund ⁽²⁾
Total Uses

⁽¹⁾ A portion of the proceeds will be transferred at closing for the acquisition of the parking structure and certain land pursuant to the Project Financing Agreement.

⁽²⁾ Expenses include fees and expenses of Bond Counsel, Financial Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs of delivery of the Bonds.

THE LEASED PROPERTY

The Leased Property securing the Lease Payments consists of a number of City-owned facilities, together with the parking structures and certain property being acquired with the proceeds of the Bonds, as described below.

Parking Structures: Under the Agreement with the Developer, the City will acquire 3 existing parking structures with the proceeds of the Bonds. The first parking structure is subterranean, and located under the retail buildings on Block A-1 (see "THE FINANCING PLAN - The Project - Downtown Revitalization Conceptual Plan" herein). This parking structure has ___ parking spaces and was constructed in _____. It does require minor seismic improvements, which the City will complete as expeditiously as possible upon acquisition. The second parking structure is adjacent to Block F (entertainment component) and Block G (mixed use component). It contains ___ parking spaces, with 2 levels above ground and 1 level below grade. This parking structure was constructed in _____. The third parking structure contains ___ parking spaces, with on grade and below grade spaces. The [date] appraised value of the parking structures is \$22,970,000.

Future Expansion Parcels: Under the Agreement with the Developer, a part of the property that the City will acquire the proceeds of the Bonds includes 2 parcels to be reserved for future expansion of public uses. These properties, totaling approximately 34,000 square feet, are located across from the Desert Art Museum and will be open green space until the Art Museum builds on one of them. These two parcels shall be usable by the public during the period the Museum does not develop. The City estimates that these properties are valued at \$1,360,000 based on the appraised value for the property in the downtown of \$40 per square foot.

Fire Stations: The Leased Property will include 4 of the City's 5 fire stations. Station 1 is 5,364 square feet, constructed in 1957. Station 3 is 5,807 square feet, constructed in 1964. Station 4 is 4,608 square feet, constructed in 1971. Station 5 is 3,764 square feet, constructed in 1981. The insured value of the four facilities is \$3,893,050, exclusive of land value.

CVEP Building: This administrative building was constructed in 1962, and contains 15,000 square feet of office space. It is currently leased to the Coachella Valley Economic Partnership. The insured value of the building is \$2,721,750, exclusive of land value. The building sits on an approximate 1 acre site, which the City estimates has a value of approximately \$600,000 using a value of \$13.75 per square foot.

Corporate Yard: The City's corporate yard is used to store public works equipment when not in use and other public works supplies and materials. It also includes a repair shop for city vehicles, an administrative office, a welding shop, paint booth and covered gas pumps. The buildings square footage totals 44,630 square feet and have an insured value of \$6,474,560. The site is 15.19 acres. The City estimates the value of the site is in excess of \$9,000,000, using a value of \$13.75 per square foot.

Skate Park: The City's skate park is located in the City's Sunrise Plaza complex, along with other City recreational facilities such as the swim center, the library and the leisure center. The Skate Park is comprised of 30,000 square feet of concrete skating surface and was built in 2003. The insured value of the facility is \$1,589,400, exclusive of land value.

The City has the right under the Lease Agreement, however, to delete or substitute portions of the Leased Property with alternate Leased Property subject to the satisfaction of certain requirements (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT" herein).

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are payable from and secured by a pledge of Revenues and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, mean (a) all amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, 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 the provisions of the Lease Agreement relating to release and indemnification of the Authority, and (ii) any Additional Rent (consisting of certain administrative costs due to the Authority and the Trustee under the Lease Agreement), and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

As security for the Bonds, the Authority will assign to the Trustee for the payment of the Bonds the Authority's rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Lease Payments to be made by the City under the Lease Agreement.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER.

Lease Payments; Abatement

The City is required to pay to the Authority specified amounts for use of the Leased Property, which are equal to the principal of and interest due with respect to the Bonds. The Lease Agreement requires the City to make Lease Payments to the Authority 15 days preceding each Interest Payment Date. Lease Payments to be paid by the City are assigned and are to be transmitted directly to the Trustee. The Indenture provides that the Lease Payments will be deposited in the Bond Fund maintained by the Trustee under the Indenture and applied to pay the principal and interest on the Bonds.

The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make annual appropriations for all such Lease Payments. The Lease Agreement provides that the several actions required by such covenants are deemed to be and shall be construed to be duties imposed by law and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants in the Lease Agreement agreed to be carried out and performed by the City.

The Lease Agreement provides that, except as set forth below, Lease Payments will be abated during any period in which there is substantial interference with the City's use of any portion of the Leased Property because of damage, destruction or condemnation of such portion. The amount of such abatement will be an amount agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not taken, damaged or destroyed. Such abatement will continue for the period commencing with such taking, damage, destruction or interference with use and ending with the substantial completion of the work of replacement, repair or reconstruction. In the event of any event causing an abatement, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of such event. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, non-completion or unavailability of all or a portion of the Leased Property to the extent that: (i) the fair rental value of the portions of the Leased Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the City (giving due consideration to 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, as determined by the City, is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Reserve Account and/or the Insurance and Condemnation Fund and/or the Bond Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being thereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

During any period of abatement of Lease Payments, the Trustee shall pay principal and interest on the Bonds allocable to such portions of the Leased Property from moneys on deposit in the Reserve Account, and, if available, proceeds of insurance or condemnation award, on a pro-rata basis. The reduced Lease Payments may not be sufficient to pay principal and interest on the Bonds in the amounts and at the rates set forth therein. The City's reduced Lease Payments will constitute the total Lease Payments. In the event and to the extent the Lease Payments and other amounts available to the Trustee under the Indenture are subject to abatement, there could be insufficient amounts to pay principal of and interest on the Bonds in full, and such insufficiency would not constitute a default by the City under the Indenture, the Lease Agreement or otherwise.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS (INCLUDING ANY MEMBER OF THE AUTHORITY) IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Reserve Account

Pursuant to the Indenture, the Trustee will establish and maintain a Reserve Account in the Bond Fund. The Trustee shall apply amounts in the Reserve Account solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On or before each Interest Payment Date, after the required deposits to the Interest Account and the Principal Account have been made, the Trustee will deposit Revenues in the Reserve Account; provided, that no such deposit need to be made so long as the balance therein is equal to the Reserve Requirement. The Reserve Requirement, as defined in the Indenture, means an amount equal to lesser of (a) the maximum amount of annual debt service coming due and payable on the Bonds in the current or any future Bond Year, or (b) the maximum amount permitted by the Tax Code. The Reserve Requirement as of the Delivery Date is _____*.

On the date on which all Bonds are retired or provision is made therefor, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments. Earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund to be applied as a credit against the next succeeding Lease Payments.

* Preliminary, subject to change.

In the event that the City fails to deposit with the Trustee the full amount required by the Lease Agreement to pay principal and interest due on the Bonds, the Trustee will withdraw, from the Reserve Account, the difference between the amount required to be on deposit and the amount available on such date. Amounts in the Reserve Account in excess of the Reserve Requirement will be transferred to the Bond Fund to be applied as a credit against the next succeeding Lease Payments.

Insurance Relating to the Property

The Lease Agreement requires the City to maintain comprehensive general public liability and property damage insurance and fire insurance with extended coverage on the Leased Property. The City is also required to maintain rental interruption insurance covering loss of the use of any part of the Leased Property in an amount equal to the Lease Payments due in the next 24 months. The City is required to maintain earthquake insurance only with respect to structures and only to the extent available at reasonable cost from reputable insurers, therefore, although the City currently maintains earthquake insurance with respect to the Leased Property, damage from earthquakes may not be covered in future years.

See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - THE LEASE AGREEMENT - Insurance” and “RISK FACTORS - The Lease Payments - Insurance” herein.

In the event the Leased Property is damaged or destroyed, the City may apply the net proceeds of any insurance award (except that included for the purposes of rental interruption) to replace, repair, restore, modify or improve (collectively, “repair”) the Leased Property, or if repairing the Leased Property is not economically feasible, or in the best interest of the City, to redeem the Bonds. In the event the Leased Property have been damaged or destroyed and the City directs the Trustee to apply insurance proceeds arising from such damage or destruction to the payment or prepayment of Lease Payments, then the Trustee shall apply such proceeds to the redemption of Bonds as described under the caption “THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds” herein. The amount of the Lease Payments will be adjusted or abated (but only after all available moneys have been depleted) during any period in which damage or destruction to the Leased Property or condemnation of the Leased Property substantially interferes with the City’s use and possession thereof. See “RISK FACTORS - The Lease Payments - Abatement” herein.

If there are not sufficient insurance proceeds to complete repair of the Leased Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease Agreement. Such reduced Lease Payments may not be sufficient to pay principal and interest with respect to the Bonds. Such reduction would not constitute a default under either the Indenture or the Lease Agreement.

Remedies on Default

If the City defaults in performance of its obligations under the Lease Agreement, the Trustee, as assignee of the Authority, may elect not to terminate the Lease Agreement and may re-enter and relet the Leased Property and may enforce the Lease Agreement and hold the City liable for all Lease Payments on an annual basis while re-entering and reletting the Leased Property. Such re-entry and reletting shall not effect a surrender of the Lease Agreement. Alternatively, the Trustee may elect to terminate the Lease Agreement and may re-enter and relet the Leased Property and seek to recover all costs, losses or damages caused by the City’s default. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Events of Defaults.”

CITY OF PALM SPRINGS

General Information

The City of Palm Springs is located at the edge of the Coachella Valley in central Riverside County, sited at the base of Mt. San Jacinto. The City is located 107 miles east of Los Angeles and 120 miles west of the Arizona border. Palm Springs covers a geographical area of 96 square miles. Neighboring communities include Palm Desert, Rancho Mirage, Desert Hot Springs and Cathedral City.

A major Southern California resort destination, Palm Springs attracts both local vacationers, distant "snowbirds" and permanent retirees. Palm Springs is very much an event-oriented city. The Palm Springs International Film Festival is an annual event. With premieres, parties, conferences and celebrations, this festival epitomizes the Palm Springs lifestyle.

The Palm Springs area is well known for its championship golf courses. The Humana Challenge (formerly the Bob Hope Classic), the Kraft Nabisco Championship and the Frank Sinatra Celebrity Invitational Golf Tournament are three well-publicized celebrity events. With over 80 golf courses in the Palm Springs area, the Professional Golf Association holds tournaments in the area several times throughout its annual tour.

There are over 130 hotels and inns within the Palm Springs area offering approximately 6,500 rooms. Accommodating vacationers and visitors plays a major role in the City's economy, providing a significant amount of transient occupancy tax and sales tax.

General Organization

The City of Palm Springs was incorporated as a general law city on April 20, 1938, and, operates under the council/manager form of government. It became a charter city on July 12, 1994. The City is governed by a five-member council consisting of four members and a Mayor, each elected at large for four-year alternating terms. Positions of City Manager and City Attorney are filled by appointments of the Council. The City of Palm Springs currently employs approximately 368 full-time staff members including sworn officers and fire personnel.

The members of the City Council, the expiration dates of their terms and key administrative personnel are set forth in the charts below.

CITY COUNCIL

| <u>Council Member</u> | <u>Term Expires</u> |
|---------------------------|---------------------|
| Stephen Pougnet, Mayor | December 2015 |
| Ginny Foat, Mayor Pro Tem | December 2013 |
| Rick Hutcheson | December 2015 |
| Christopher Mills | December 2013 |
| Paul Lewin | December 2015 |

CHIEF ADMINISTRATIVE PERSONNEL

David H. Ready, Esq., Ph.D., *City Manager*
Thomas Wilson, *Assistant City Manager*
Geoffrey S. Kiehl, *Director of Finance and Treasurer*
David J. Barakian, *Director of Public Works/City Engineer*
John S. Raymond, *Director of Community & Economic Development*
James L. Thompson, *City Clerk*

Governmental Services

Public Safety and Welfare

The City of Palm Springs Police Department consists of 132 sworn police officers and non-sworn personnel providing patrol, traffic, animal control and investigations. There are 4 fire stations located in and operated by the City, staffed by 58 fire personnel. The City also provides parking control in the downtown business district.

Public Services

Water is supplied to Palm Springs by the Desert Water Agency. Sewer service is provided by the City. Although the City operates two cogeneration facilities which provide electricity to certain municipally owned facilities, Southern California Edison provides electricity to the citizens of the City of Palm Springs. The City owns and operates the Palm Springs International Airport, with 5 major airlines and 5 commuter airlines servicing over 1.5 million passengers in 2011.

Community Services

Other services provided by the City include building permit and inspection, planning and zoning, landscape and public infrastructure maintenance, street cleaning, traffic signal maintenance, municipal code compliance and rent control.

Parks and Recreation

The City operates the Library Center, a 33,000 square foot facility with over 155,000 items available, as well as free wireless internet access and downloadable books for Kindle. The Village Green, located in the heart of downtown Palm Springs, includes the Historical Society Museum, the Cornelia White historical site and Ruddy's General Store Museum. The Palm Springs Department of Parks and Recreation provides citizens with a variety of park and recreational services on a year round basis. Leased Property include two community centers, eight parks, a dog park, an Olympic size community pool, twelve tennis courts, the 18-hole Tahquitz Creek – Legends golf course and the 18-hole Tahquitz Creek – Resort golf course, a 30,000 square feet skate park and five playgrounds, as well as biking and hiking trails. Frances Stevens Park is home to Palm Canyon Theatre, a regional Actors Equity theatre, and an art/festival center.

Community Information

The Coachella Valley has 2 large school districts and 5 smaller districts. The City of Palm Springs is served by the Palm Springs Unified School District, with 16 elementary schools, 5 middle schools, 3 comprehensive high schools, 2 continuation high schools, 2 independent study programs, and an extensive adult education program serving the Coachella Valley. In addition, higher education in the Coachella Valley includes the College of the Desert, a local accredited junior college, with a main campus in Palm Desert, and East Valley Center in Indio, and a Valley Campus in Palm Springs scheduled to open in 2014. In the nearby City of Palm Desert, a satellite campus of California State University, San Bernardino (CSUSB) offers curriculum towards a B.A. in various disciplines as well as Bachelor of vocational education; special B.A. in paralegal administration, and 6 masters degree programs, including education and public administration. Teaching credentials are also available. In addition, CSUSB is currently working with local government agencies to select a site for a permanent independent campus in the Coachella Valley.

Medical services in the Coachella Valley are provided by a number of local and regional facilities. The Desert Regional Medical Center, located in Palm Springs, is a 367-bed acute care regional medical center that is home to the Coachella Valley's only designated trauma center. Eisenhower Medical Center, in nearby Rancho Mirage, is a health care complex comprised of a 542-bed hospital, the Annenberg Center for Health Sciences at Eisenhower, the Barbara Sinatra Children's Center at Eisenhower and the Betty Ford Center on the Eisenhower campus. The 158-bed JFK Memorial Hospital is part of Tenet, California, and is located in Indio.

Palm Springs has many visitor attractions in addition to the weather and championship golf courses. The Palm Springs Aerial Tramway, rising 8,516 feet up Mt. San Jacinto, is the world's largest rotating tramcar. Mt. San Jacinto State Park offers 54 miles of hiking trails located within a 13,000 acre pristine wilderness. Centuries ago, ancestors of the Agua Caliente Cahuilla Indians settled in the Palm Springs area and developed extensive and complex communities in Palm, Murray, Andreas, Tahquitz and Chino Canyons. Many traces of these communities exist in the canyons today, including rock art, house pits and foundations, irrigation ditches, dams, reservoirs, and trails.

The Fabulous Palm Springs Follies features the music, dance -- and cast -- of Mid-Century America. World-renowned guest stars and international variety acts join the Follies' world-renowned line of Long-Legged Lovelies and Follies Gentlemen, who range in age from 56 to 82. The Palm Springs Art Museum is located in downtown Palm Springs, and the museum's extensive permanent collection includes significant works by western, contemporary and glass artists, and features temporary exhibitions from internationally acclaimed artists. Located inside the Palm Springs Art Museum, the Annenberg Theater presents an eclectic mix of live events including national touring companies. In addition, the Palm Springs Air Museum offers one of the world's finest collections of functioning World War II aircraft.

Founded in 1990 by then Mayor Sonny Bono, the Palm Springs International Film Festival celebrated its 23rd anniversary in January 2012. The Festival included over 400 screenings of more than 200 films from approximately 60 countries. The Festival presents a majority of the films submitted for consideration in the Best Foreign Language category for the Academy Awards, as well as a large number of American independent and international features and documentaries marking their world, North American or U.S. debuts. Screenings are held on 15 screens throughout Palm Springs. The Festival's Awards Gala draws the biggest actors and actresses, celebrity filmmakers, media, industry professionals and film fans from all over the world to kick off the winter awards season in style.

Transportation

Interstate 10 runs adjacent to Palm Spring's northern City limits. This route provides access to the Southern California freeway system to the west, as well as Arizona to the east. Rail freight service is available from Southern Pacific Transportation. Bus services are provided by Continental Trailways, Greyhound Bus Lines and Sunline System, both local and distant. Palm Springs International Airport is the only commercial airport in Riverside County and is served by 5 major airlines.

Population

The following table provides a comparison of population growth for Palm Springs, surrounding cities and Riverside County between 2007 and 2011. During the winter season, population in Palm Springs increases to approximately 75,000.

**TABLE NO. 1
CHANGE IN POPULATION
PALM SPRINGS, SURROUNDING CITIES AND RIVERSIDE COUNTY
2007 – 2011**

| Year | PALM SPRINGS | | SURROUNDING CITIES | | RIVERSIDE COUNTY | |
|---------------------------------|--------------|-------------------|--------------------|-------------------|------------------|-------------------|
| | Population | Percentage Change | Population | Percentage Change | Population | Percentage Change |
| 2007 | 44,154 | | 138,404 | | 2,049,902 | |
| 2008 | 44,026 | (0.3%) | 139,784 | 1.0% | 2,102,741 | 2.6% |
| 2009 | 44,346 | 0.7% | 141,532 | 1.3% | 2,140,626 | 1.8% |
| 2010 | 44,480 | 0.3% | 142,359 | 0.6% | 2,179,692 | 1.8% |
| 2011 | 45,002 | 1.2% | 145,560 | 2.3% | 2,217,778 | 1.7% |
| % Change Between 2007 - 2011 | | 1.9% | | | 5.2% | 8.2% |

Surrounding cities include Cathedral City, Desert Hot Springs, Palm Desert and Rancho Mirage.

Source: State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts" Sacramento, California, August 2011, "E-5 Population and Housing Estimates for Cities, Counties, and the State, 2010-2011, with 2010 Benchmark" Sacramento, California, May 2011 and "January 2011 Tables of City Population Ranked by Size, Numeric and Percent Change" Sacramento, California, May 2011.

Per Capita Income

Per capita income information for Palm Springs, Riverside County, the State of California and the United States are summarized in the following table.

TABLE NO. 2
PER CAPITA INCOME
CITY OF PALM SPRINGS, RIVERSIDE COUNTY, CALIFORNIA AND UNITED STATES
2006 – 2010

| Year | Palm Springs | Riverside County | State of California | United States |
|------|--------------|------------------|---------------------|---------------|
| 2006 | \$28,619 | \$28,730 | \$41,518 | \$37,725 |
| 2007 | 29,140 | 29,560 | 43,211 | 39,506 |
| 2008 | 29,260 | 30,894 | 43,993 | 40,947 |
| 2009 | 28,883 | 29,748 | 41,353 | 38,846 |
| 2010 | 35,974 | 31,504 | 42,578 | 39,945 |

Source: City of Palm Springs Comprehensive Annual Financial Report, Riverside County Comprehensive Annual Financial Report, U.S. Department of Commerce, Bureau of Economic Analysis, (February 2012 Revision).

Employment

As of December 1, 2011, the civilian labor force for the City was approximately 26,400 of whom 23,900 were employed. The unadjusted unemployment rate as of December 2011 was 12.5% for the City as compared to 10.9% for the County and 10.9% for the State. Civilian labor force, employment and unemployment statistics for the City, County, the State and the nation, for the years 2006 through 2010 are shown in the following table:

**TABLE NO. 3
CITY OF PALM SPRINGS
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES**

| Year | Civilian Labor Force | Employment | Unemployment | Unemployment Rate |
|----------------------|----------------------|-------------|--------------|-------------------|
| <u>2006</u> | | | | |
| City of Palm Springs | 25,900 | 24,900 | 1,000 | 3.8% |
| Riverside County | 883,400 | 839,000 | 44,400 | 5.0 |
| California | 17,686,700 | 16,821,300 | 865,400 | 4.9 |
| United States | 151,413,000 | 144,419,000 | 7,001,000 | 4.6 |
| <u>2007</u> | | | | |
| City of Palm Springs | 26,400 | 25,200 | 1,200 | 4.6 |
| Riverside County | 903,800 | 849,400 | 54,300 | 6.0 |
| California | 17,928,700 | 16,970,200 | 958,500 | 5.3 |
| United States | 153,126,000 | 146,049,000 | 7,078,000 | 4.6 |
| <u>2008</u> | | | | |
| City of Palm Springs | 26,500 | 24,800 | 1,700 | 6.5 |
| Riverside County | 912,100 | 834,700 | 77,400 | 8.5 |
| California | 18,191,000 | 16,833,400 | 1,307,600 | 7.2 |
| United States | 154,329,000 | 145,368,000 | 8,924,000 | 5.8 |
| <u>2009</u> | | | | |
| City of Palm Springs | 26,300 | 23,500 | 2,800 | 10.5 |
| Riverside County | 916,600 | 793,600 | 123,000 | 13.4 |
| California | 18,204,200 | 16,141,500 | 2,062,700 | 11.3 |
| United States | 154,142,000 | 139,877,000 | 14,265,000 | 9.3 |
| <u>2010</u> | | | | |
| City of Palm Springs | 26,000 | 23,200 | 2,900 | 11.1 |
| Riverside County | 913,800 | 779,500 | 134,300 | 14.7 |
| California | 18,176,200 | 15,916,300 | 2,259,900 | 12.4 |
| United States | 153,889,000 | 139,064,000 | 14,825,000 | 9.6 |

Source: California State Employment Development Department and United States Bureau of Labor Statistics.

The City is located in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). As of December 2011, six major job categories constitute 79.2% of the work force. They are government (19.5%), service producing (18.5%), educational and health services (12.0%), professional and business services (11.1%), leisure and hospitality (10.8%), and manufacturing (7.3%).

TABLE NO. 4
RIVERSIDE-SAN BERNARDINO-ONTARIO MSA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in thousands)

| Industry | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|----------------|----------------|----------------|----------------|----------------|
| Government | 231.5 | 232.5 | 227.9 | 221.7 | 226.1 |
| Other Services | 40.9 | 38.5 | 37.4 | 36.5 | 38.1 |
| Leisure and Hospitality | 134.7 | 130.2 | 123.3 | 123.0 | 125.6 |
| Educational and Health Services | 131.0 | 133.8 | 135.2 | 137.0 | 139.1 |
| Professional and Business Services | 144.4 | 134.5 | 120.2 | 124.2 | 129.0 |
| Financial Activities | 48.2 | 45.0 | 41.6 | 41.1 | 40.4 |
| Information | 15.3 | 14.6 | 15.3 | 16.0 | 16.3 |
| Transportation, Warehousing and Utilities | 72.7 | 70.3 | 67.4 | 68.6 | 71.2 |
| Service Producing | | | | | |
| Retail Trade | 185.3 | 169.6 | 162.7 | 161.2 | 162.0 |
| Wholesale Trade | 57.7 | 51.2 | 48.5 | 49.2 | 52.6 |
| Manufacturing | | | | | |
| Nondurable Goods | 36.3 | 32.5 | 29.8 | 29.4 | 30.1 |
| Durable Goods | 77.8 | 66.3 | 55.1 | 54.5 | 54.6 |
| Goods Producing | | | | | |
| Construction | 103.2 | 79.5 | 61.6 | 56.0 | 56.2 |
| Mining and Logging | <u>1.2</u> | <u>1.2</u> | <u>1.0</u> | <u>1.0</u> | <u>1.0</u> |
| Total Nonfarm | 1,280.2 | 1,199.6 | 1,127.0 | 1,119.4 | 1,142.3 |
| Farm | <u>16.8</u> | <u>16.5</u> | <u>14.9</u> | <u>15.8</u> | <u>15.6</u> |
| Total (all industries) | <u>1,297.0</u> | <u>1,216.1</u> | <u>1,141.9</u> | <u>1,135.2</u> | <u>1,157.9</u> |

Source: State of California Employment Development Department, Labor Market Information Division, "Industry Employment & Labor Force - by month March 2010 Benchmark."

⁽¹⁾ Annually, as of December.

**TABLE NO. 5
CITY OF PALM SPRINGS
MAJOR EMPLOYERS**

The major employers operating within the City and their respective number of employees as of June 30, 2011 are as follows:

| Name of Company | Employment | Type of Business/Service |
|--------------------------------------|-------------------|---------------------------------|
| Spa Casino | 1000-4999 | Resort and Spa Casino |
| Desert Regional Medical Center Rehab | 1000-4999 | Health Care |
| Care Fusion | 250-499 | Medical Devices |
| Palm Springs Personnel | 250-499 | Government |
| Desert Sun | 250-499 | Newspaper |
| Palm Springs Riviera Resort | 250-499 | Resort and Spa |
| Savoury's Inc. | 250-499 | Catering |
| Agua Caliente Band of Indians | 100-249 | Sovereign Tribal Government |
| Eat at the Desert | 100-249 | Restaurant |
| Hilton Palm Springs Resorts | 100-249 | Resorts |

Source: City of Palm Springs/California State Employment Development Department.

Commercial Activity

The following table summarizes the volume of retail sales and taxable transactions for the City of Palm Springs for 2006 through 2010 (the most recent year for which statistics are available from the State Board of Equalization for the full year). The City's sales tax receipts declined by approximately 6.5% for Fiscal Year 2009/10 and increased by 17% for Fiscal Year 2010/11.

**TABLE NO. 6
CITY OF PALM SPRINGS
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2006 – 2010**

| Year | Retail and Food Services | | Retail and Food Services | | Total Taxable Transactions | | Issued Sales | |
|------|--------------------------|----------|--------------------------|-----------|----------------------------|---------|--------------|--|
| | (\$000's) | % Change | Permits | (\$000's) | % Change | Permits | | |
| 2006 | \$695,764 | | 1,122 | \$876,619 | | 2,055 | | |
| 2007 | 671,753 | (3.5)% | 1,078 | 852,473 | (2.8%) | 2,072 | | |
| 2008 | 648,728 | (3.4%) | 1,059 | 826,056 | (3.1%) | 2,043 | | |
| 2009 | 579,183 | (10.7%) | 1,298 | 763,354 | (7.6%) | 1,865 | | |
| 2010 | 610,488 | 5.4% | 1,320 | 806,540 | 5.7% | 1,869 | | |

Source: State Board of Equalization, "Taxable Sales in California."

The following table compares taxable transactions for the City of Palm Springs and surrounding cities for the years 2006 through 2010 (the most recent year for which statistics are available from the State Board of Equalization for the full year).

**TABLE NO. 7
CHANGE IN TOTAL TAXABLE TRANSACTIONS
PALM SPRINGS AND SURROUNDING CITIES
(in thousands)
2006 – 2010**

| City | 2006 | 2007 | 2008 | 2009 | 2010 | % Change from 2006 - 2010 |
|----------------|------------|------------|------------|------------|------------|---------------------------|
| PALM SPRINGS | \$ 876,619 | \$ 852,473 | \$ 826,056 | \$ 763,354 | \$ 806,540 | (8.0)% |
| Cathedral City | 898,801 | 812,985 | 649,612 | 546,894 | 559,069 | (37.8)% |
| Palm Desert | 1,593,699 | 1,593,698 | 1,447,663 | 1,213,935 | 1,266,834 | (20.5)% |

Source: State Board of Equalization, "Taxable Sales in California."

Taxable transactions by type of business for the City of Palm Springs for 2006 through 2010 (the most recent year for which statistics are available from the State Board of Equalization for the full year) are summarized in Table No. 8.

TABLE NO. 8
CITY OF PALM SPRINGS
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2006 – 2010

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <i>Retail and Food Services</i> | | | | | |
| <i>Clothing and Clothing</i> | | | | | |
| Accessories Stores | \$ 16,186 | \$ 15,291 | \$ 17,289 | \$ 31,268 | \$ 33,871 |
| General Merchandise Stores | 112,667 | 106,021 | 98,333 | # | # |
| Food and Beverage Stores | 46,065 | 43,841 | 38,979 | 41,454 | 42,565 |
| Food Services and Drinking Places | 155,876 | 157,293 | 158,015 | 152,975 | 160,993 |
| <i>Home Furnishings and</i> | | | | | |
| Appliance Stores | 13,784 | 12,968 | 9,067 | 6,661 | 9,974 |
| <i>Building Materials and Garden</i> | | | | | |
| Equipment and Supplies | 109,986 | 93,177 | 83,112 | 75,080 | 77,396 |
| Motor Vehicle and Parts Dealers | # | 64,261 | # | # | # |
| Gasoline Stations | 99,885 | 109,167 | 126,937 | 82,493 | 92,823 |
| Other Retail Group | <u>141,315#</u> | <u>69,734</u> | <u>116,997#</u> | <u>189,253#</u> | <u>192,866#</u> |
| Total Retail and Food Services | 695,764 | 671,753 | 648,729 | 579,184 | 610,488 |
| <i>All Other Outlets</i> | <u>180,855</u> | <u>180,720</u> | <u>177,327</u> | <u>184,170</u> | <u>196,053</u> |
| Total All Outlets | <u>\$876,619</u> | <u>\$852,473</u> | <u>\$826,056</u> | <u>\$763,354</u> | <u>\$806,541</u> |

Source: California State Board of Equalization, "Taxable Sales in California."

Note: Detail may not compute to total due to rounding.

Sales omitted because their publication would result in the disclosure of confidential information.

Building Activity

The following table summarizes building activity valuations for the City of Palm Springs for the five fiscal years 2006/07 through 2010/11.

**TABLE NO. 9
CITY OF PALM SPRINGS
BUILDING ACTIVITY AND VALUATION
2006/07 – 2010/11**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Residential | \$152,511,362 | \$117,012,654 | \$ 46,205,943 | \$ 36,524,918 | \$ 32,433,590 |
| Commercial | <u>54,395,092</u> | <u>43,267,043</u> | <u>90,523,790</u> | <u>38,722,659</u> | <u>23,497,970</u> |
| Total Valuation | <u>\$206,906,454</u> | <u>\$160,279,697</u> | <u>\$136,729,733</u> | <u>\$ 75,247,577</u> | <u>\$ 55,931,560</u> |
| Number of Residential Units | 66 | 2 | 4 | 0 | 23 |

Source: City of Palm Springs.

FINANCIAL INFORMATION

Budgetary Process and Administration

The annual budget adopted by the City Council provides for the general operation of the City. The annual budget is adopted in summary by the City Council in June of each year for the General, special revenue, debt service, capital projects and proprietary type funds. A resolution is adopted specifying the total appropriations for each departmental activity.

Total appropriations for each fund may only be increased or decreased by the City Council by passage of a resolution amending the budget, with the exception of budget adjustments which involve offsetting revenues and expenditures. In cases involving offsetting revenues and expenditures, the Finance Director is authorized to increase or decrease an appropriation for a specific purpose where said appropriation is offset by unbudgeted revenue which is designated for said specific purpose.

The City Manager and Assistant City Manager have authority to adjust the amounts appropriated between the departments and activities of a fund, objects with each departmental activity and between accounts within the objects, provided, however, that the total appropriations for each fund may not exceed the amounts provided in the budget resolution.

The level on which expenditures may not legally exceed appropriations is the fund level. Budgets for the various funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Appropriations Limit

Section 7910 of the Government Code of the State of California requires the City to adopt a formal appropriations limit for each fiscal year. The City's appropriations limit for fiscal year 2011/12 is \$121,848,911. The City's appropriations subject to the limit for 2011/12 are \$59,889,536. Based on this, the appropriations limit is not expected to have any impact on the ability of the City to continue to budget and appropriate the Lease Payments as required by the Lease Agreement.

General Fund Revenues and Expenditures

The City's General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of property taxes, sales tax, revenues from the State, and charges for services provided.

A comparison of the actual results for Fiscal Year 2010/11, the Fiscal Year 2011/12 Budget and the estimated results for Fiscal Year 2011/12 based on the City's mid-year budget review is shown in Table No. 10. The City's budget for 2011/12 reflected the City's assessment of the continuing impact of the recession on revenues as of June 2011 and were closely aligned with Fiscal Year 2010/11 budget estimates.

The largest changes in revenue estimates between the Fiscal Year 2011/12 budget and the current Fiscal Year 2011/12 estimates result from the City's budgeting of most tax revenues at the same level budgeted in Fiscal Year 2010/11. Actual receipt of sales taxes and transient occupancy taxes for Fiscal Year 2010/11 were much higher than budget (see "TABLE NO. 15 – TAX REVENUES BY SOURCE") and the estimates for these revenues has been revised upward.

Revenues

The revenues in Table No. 10 that follows are categorized as:

- Taxes, detailed in Table No. 15 “Tax Revenues by Source,” which includes general property tax, sales tax, utility users tax, transient occupancy tax, franchise tax (cable, utility, trash), and other taxes such as documentary transfer tax;
- Licenses and Permits, which includes business licenses, construction building permits, zoning and subdivision fees, rent control registration fees and dog licenses;
- Fines and Penalties, which includes municipal and vehicle code violations and library fines;
- Revenue from Use of Money and Property, which includes interest income and rental income;
- Intergovernmental Revenue, which includes motor vehicle license fees and payments from the Agua Caliente Band of Cahuilla Indians;
- Charges for Services, comprised of towing, charges for special police or fire department services, and other charges such as plan checking, building inspection, and other municipal services, recreation fees, animal shelter fees, overhead charged to other departments and funds for General Fund support and administrative functions; and
- Miscellaneous Revenue, which includes an administrative services charge to the City’s redevelopment agency. These charges may be affected in future years (see “RISK FACTORS - State Budget; Redevelopment Agency Legislation” herein).

The largest components of estimated Fiscal Year 2011/12 General Fund revenues are property tax (approximately 27%) and transient occupancy tax (approximately 22%). In Fiscal Year 2012/13 sales tax is expected to become the largest component of General Fund revenues, due to the additional voter-approved City-wide sales tax levy (see “Local Taxes - Sales and Use Taxes” below).

Expenditures

The expenditures in Table No. 10 that follows are categorized by governmental function. Each function generally includes salaries and benefits, materials and supplies, and capital outlay, if any.

Salaries and Benefits include direct personnel costs, benefits, health insurance costs and workers’ compensation and unemployment insurance costs. Materials and supplies include non-personnel operating costs and contract professional services.

The City has both a police department and a fire department. Public safety expenditures represent approximately 46% of the total budgeted General Fund expenditures for Fiscal Year 2011/12.

Community Promotions Fund

The Community Promotions Fund was set up by policy of the City Council and moneys deposited to this fund (primarily a portion of transient occupancy taxes), while not legally restricted, were used for the Convention Visitor’s Bureau, the City’s Tourism Division and the Convention Center expenses. However, the revenues of the Community Promotions Fund are available for purposes of the General Fund, and to a large extent, pay a portion of General Fund expenditures for the Convention Center. The City has determined to no longer show the Community Promotions Fund as a separate fund for financial reporting purposes, beginning with Fiscal Year ending June 30, 2011. See “FINANCIAL INFORMATION - Financial Statements” herein). For the purposes of Table No. 10 and Table No. 15, the Community Promotions Fund activity is combined with the General Fund activity.

As noted, Table No. 10 provides a comparison of the actual results for Fiscal Year 2010/11, the Fiscal Year 2011/12 Budget and the estimated results for Fiscal Year 2011/12 based on the City's mid-year budget review. Historical General Fund and Community Promotions Fund activity is shown in Table Nos. 18 and 20.

**TABLE NO. 10
CITY OF PALM SPRINGS
GENERAL FUND REVENUES AND EXPENDITURES**

| | 2010/11 Actual | 2011/12 Budget | Change ⁽¹⁾ | | 2011/12 Estimate |
|---|--------------------|-------------------|-----------------------|---------|---------------------|
| | | | Amount | % | |
| Revenues: | | | | | |
| Taxes ⁽²⁾ | \$52,618,888 | \$50,693,845 | (\$ 1,925,043) | (3.7%) | \$51,994,604 |
| Licenses and Permits | 2,488,279 | 2,152,400 | (335,879) | (13.5%) | 2,362,400 |
| Use of Money and Property | 339,641 | 259,500 | (80,141) | (23.6%) | 257,500 |
| Intergovernmental | 5,133,038 | 4,997,500 | (135,538) | (2.6%) | 4,628,966 |
| Charges for Services | 4,646,687 | 4,390,688 | (255,999) | (5.5%) | 4,263,688 |
| Miscellaneous | 750,437 | 307,500 | (442,937) | (59.0%) | 307,500 |
| Transfers In | <u>4,538,924</u> | <u>887,500</u> | <u>(3,651,424)</u> | (80.4%) | <u>887,500</u> |
| Total Revenues | 70,515,894 | 63,688,933 | (6,826,961) | (9.7%) | 64,702,158 |
| Expenditures: | | | | | |
| General Government | \$ 8,127,888 | \$ 9,593,907 | \$ 1,466,019 | 18.0% | \$ 9,593,907 |
| Public Safety | 28,274,204 | 29,090,702 | 816,898 | 2.9% | 29,340,702 |
| Cultural and Convention Center | 2,421,474 | 2,333,761 | (87,713) | (3.6%) | 2,333,761 |
| Parks and Recreation | 7,913,049 | 8,567,077 | 654,028 | 8.3% | 8,567,077 |
| Public Works | 6,949,371 | 7,574,994 | 625,623 | 9.0% | 7,574,994 |
| Library | 1,888,598 | 2,051,834 | 163,236 | 8.6% | 2,051,834 |
| Debt Service ⁽³⁾ | 4,211,613 | 4,511,263 | 299,650 | 7.1% | 4,511,263 |
| Contingency | - | 117,138 | 117,138 | 100.0% | 117,138 |
| Department Savings | - | - | - | 0.0% | (1,300,000) |
| Transfers Out | <u>2,646,929</u> | <u>2,042,451</u> | <u>(604,478)</u> | (22.8%) | <u>2,042,451</u> |
| Total Expenditures | \$62,433,126 | \$65,883,127 | \$ 3,450,001 | 5.5% | \$64,833,127 |
| Net Change in Fund Balances | \$ 8,082,768 | (\$ 2,194,194) | | | \$ (130,969) |
| Beginning Unreserved Fund Balance | 7,417,274 | 11,779,373 | | | 11,779,373 |
| Change in Reserves | <u>(3,720,669)</u> | <u>1,582,735</u> | | | <u>1,582,735</u> |
| Ending Unreserved Fund Balance ⁽⁴⁾ | \$11,779,373 | \$11,167,914 | | | \$13,231,139 |

Source: City of Palm Springs.

⁽¹⁾ Change between 2010/11 actual and 2011/12 budget.

⁽²⁾ Does not include additional sales tax the City will receive beginning April 1, 2012 for voter-approved City-wide sale tax. See "Local Taxes - Sales and Use Taxes" below.

⁽³⁾ Excludes \$1.6 million of debt service for the Bonds issued to finance the expansion of the City's Convention Center and paid by the City's former Redevelopment Agency. See "RISK FACTORS - State Budget; Redevelopment Agency Legislation" herein.

⁽⁴⁾ Due to the implementation of GASB No. 54, the City will be required to modify its presentation of "fund balance." GASB No. 54 provides for additional classification of fund balance as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City 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 property and real property having a tax lien which is sufficient, in the opinion of the 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 the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1½% per month begins to accrue on November 1 of the fiscal year. The County of Riverside has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment 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.

Taxable Property and Assessed Valuation

Set forth in Table No. 11 are assessed valuations for secured and unsecured property within the City of Palm Springs. Article XIII A of the California Constitution prescribes the method for determining the full cash value of real property and the maximum ad valorem tax on real property. The full cash value, once established, is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the California Consumer Price Index. There may also be declines in valuations if the California Consumer Price Index is negative.

Proposition 8 provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The City has seen significant Proposition 8 reductions in property values since 2009. See "RISK FACTORS - Constitutional Limitation on Taxes and Expenditures - Article XIII A" and " - Proposition 8 Adjustments" herein.

**TABLE NO. 11
CITY OF PALM SPRINGS
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY**

| Fiscal Year | Secured | Unsecured | Total |
|-------------|-----------------|---------------|------------------|
| 2007/08 | \$9,346,216,644 | \$503,243,449 | \$ 9,849,460,093 |
| 2008/09 | 9,684,032,632 | 602,259,586 | 10,286,292,218 |
| 2009/10 | 9,212,511,984 | 517,770,317 | 9,730,282,301 |
| 2010/11 | 8,633,812,919 | 523,017,706 | 9,156,830,625 |
| 2011/12 | 8,355,843,908 | 552,198,136 | 8,908,042,044 |

Source: County of Riverside Auditor-Controller.

Note: These values are reported by the County of Riverside after the tax roll is equalized and may be different than values shown as of June 30 each fiscal year in the statistical section of the City's Comprehensive Annual Financial Report.

Property tax levies and collections for the City are set forth in Table No. 12.

**TABLE NO. 12
CITY OF PALM SPRINGS
SECURED TAX LEVIES AND COLLECTIONS**

| Fiscal Year Ended June 30 | Total Tax Levy for Fiscal Year | Collections within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Tax Collections | Percentage of Levy |
|------------------------------------|---|---|-----------------------|--|-----------------------------|-----------------------|
| | | Amount | Percentage of Levy | | | |
| 2007 ⁽¹⁾ | \$16,810,790 | \$15,325,800 | 91.17% | \$ 756,370 | \$16,082,170 | 95.67% |
| 2008 ⁽¹⁾ | 17,805,189 | # | 0.00% | # | # | 0.00% |
| 2009 | # | # | # | # | # | # |
| 2010 ⁽²⁾ | 37,164,518 | 34,897,314 | 93.90% | 1,377,973 | 36,275,287 | 97.61% |
| 2011 ⁽²⁾ | 36,589,289 | 33,749,104 | 92.24% | 617,134 | 34,366,238 | 93.92% |

Source: City of Palm Springs and Riverside County Auditor-Controller.

⁽¹⁾ General Fund share of property taxes.

⁽²⁾ Includes City property taxes and redevelopment agency tax increment, prior to any passthroughs to other agencies.

County of Riverside was unable to provide this information.

Redevelopment Agencies

The California Redevelopment Law (Part 1 of Division 24 of the Health & Safety Code of the State) authorizes the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the “incremental value”) occurring after the year the project area is formed. In effect, local taxing authorities, such as the City, realize tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. There are 2 redevelopment projects in the City, the Merged Redevelopment Project No. 1 and the Merged Redevelopment Project No. 2. Table No. 13 sets forth total assessed valuations and redevelopment agency incremental values.

The State Legislature approved a bill, AB X1 26, during the 2011/12 State budget process. AB X1 26 eliminates redevelopment agencies State-wide. The California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the “Court”), requesting the Court to review the constitutionality of AB X1 26. On December 29, 2011, the Court issued its opinion and upheld AB X1 26. As a result of the decision, all California redevelopment agencies, including the Agency, were dissolved as of February 1, 2012. Certain tax revenues allocable to the former redevelopment agency will continue to be available to the City, as successor agency to the Agency, to pay certain obligations, and some of those revenues may be redirected to other taxing agencies, such as the County, school districts and the City. The City expects that the implementation of AB X1 26 will have a negative financial impact on the General Fund. See “RISK FACTORS - State Budget; Redevelopment Agency Legislation.”

**TABLE NO. 13
CITY OF PALM SPRINGS
TOTAL AND NET PROPERTY TAX VALUATIONS**

| Fiscal Year | Total Assessed Valuation | Redevelopment Agency Incremental Value | Net Value | Percent Change |
|--------------------|---------------------------------|---|------------------|-----------------------|
| 2007/08 | \$ 9,849,460,093 | \$1,639,123,225 | \$8,210,336,868 | |
| 2008/09 | 10,286,292,218 | 1,804,146,174 | 8,482,146,044 | 3.3% |
| 2009/10 | 9,730,282,301 | 1,793,987,230 | 7,936,295,071 | (6.4%) |
| 2010/11 | 9,156,830,625 | 1,610,030,699 | 7,546,799,926 | (4.9%) |
| 2011/12 | 8,908,042,044 | 1,492,740,281 | 7,415,301,763 | (1.7%) |

Source: County of Riverside Auditor-Controller.

Largest Taxpayers

The principal property taxpayers as of June 30, 2011 are as shown in Table No. 14.

**TABLE NO. 14
CITY OF PALM SPRINGS
LARGEST PROPERTY TAXPAYERS**

| Taxpayer | Assessed Valuation | Percent of Total |
|---------------------------------|---------------------------|-------------------------|
| Tenet Health System Desert Inc. | \$111,625,739 | 1.21% |
| Indigo Generation LLC | 66,400,000 | 0.72 |
| Donahue Schriber Realty Group | 57,024,645 | 0.62 |
| John Wessman | 50,599,246 | 0.55 |
| Endure Investment | 45,854,968 | 0.50 |
| Suncal PSV | 42,933,939 | 0.47 |
| San Gorgonio Westwinds II LLC | 42,911,000 | 0.47 |
| Lola J. Preckel | 41,222,484 | 0.45 |
| HH Palm Springs | 39,700,000 | 0.43 |
| Palm Springs HH LLC | <u>36,048,473</u> | <u>0.39</u> |
| | \$534,320,484 | 5.81% |

Source: City of Palm Springs.

State Legislative Shift of Property Tax Allocation

Beginning in 1992/93, the State has required that local agencies including cities remit a portion of property taxes received to augment school funding. These funds are deposited in each county's Education Revenue Augmentation Fund ("ERAF"). These property taxes (approximately 17.5%) are permanently excluded from the City's property tax revenues.

On July 24, 2009, the California legislature approved amendments to the 2009/10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments include borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008/09 property related tax revenues from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State must repay with interest within three years. The City participated in the Proposition 1A securitization program undertaken by the California Statewide Community Development Authority, whereby the City sold the \$2,077,105 receivable that resulted from the State borrowing of property tax revenues.

In addition, certain other provisions in the State budget have resulted in a realignment of property tax revenues:

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion in bonds to finance the 2002/03 and 2003/04 State budget deficits, to be payable from a fund to be established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction is redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which is currently expected to occur in approximately 12 years. The sales tax estimated to be received through an in lieu payment from State property tax revenues, approximately \$1.8 million, is included in sales taxes shown in Table No. 15.

The City receives a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Several years ago, the State-wide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." The City's budgeted VLF amount of \$120,000 for Fiscal Year 2011/12 is based on the VLF expected to be paid to the City. The State VLF backfill budgeted to be received through an in lieu payment from State property tax revenues is approximately \$3.8 million. However, due to the expiration of a temporary \$0.15 increase in VLF rates on July 1, 2011, the City expects a reduction in VLF of \$169,466 in Fiscal Year 2011/12.

Local Taxes

In addition to ad valorem taxes on real property, the City receives the following non-real estate local taxes (see "RISK FACTORS - Constitutional Limitation on Taxes and Expenditures - Proposition 62" and "- Voter-Approved Taxes" herein):

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to 1% of taxable sales within their jurisdiction. In addition, the City receives a portion of a ½ cent sales tax increase approved by voters in 1993. Sales tax generated by this increase is used to offset certain expenses for public safety. On November 8, 2011, voters in the City approved the levy of an additional 1% sales tax for a 25-year term, commencing April 1, 2012. This new sales tax will effectively double the amount of sales tax currently received by the City in future years from amounts shown in Table No. 15 below.

Franchise Taxes. The City levies a franchise tax on its cable television, trash collection and utility franchises. The tax was not approved by majority vote of the electorate, although the current tax was approved prior to the passage of Proposition 62 and has not been increased.

Transient Occupancy Tax. The City levies a transient occupancy tax on hotel and motel bills. Rates are different for "group meeting hotels" (over 125 rooms) than for other hotels and motels. In November 2001, voters in the City approved an increase of the tax which raised the tax rate for group meeting hotels from 10.8% to 12.5%, and the tax rate for all other hotels from 10% to 11.5%. In November 2003, voters in the City approved an additional increase of the tax rate for group meeting hotels, which is currently 13.5%.

More than \$160 million has been invested by numerous hotel owners in refurbishing and renovating their properties since 2009. The largest of these are the 410-room Renaissance Palm Springs (located at the Convention Center), the 194-suite Hyatt Regency Suites, and the 410-room Riviera Resort & Spa.

Utility Users Tax. Palm Springs levies a utility users tax, which was first levied pursuant to an ordinance of the City Council adopted in July 1986. On November 3, 2009, voters ratified the tax and approved amendments to the City's Utility User Tax ordinance, which modernized the definitions of the Telephone User Tax portion to include, among other things, VoIP, IP-TV, text messaging, paging, and private communication services. The amendment reduced the rate for telecommunication and video services subject to the tax from 5% to 4.5%. The tax rate for electricity and gas services is unaffected and remains at 5%. The utility user tax represents approximately 10% of Palm Springs's General Fund revenues.

Also in November 2009, the voters approved an access line tax in lieu of the emergency response fee that the City had levied for the purpose of funding improvements to and operation of the City's 911 emergency communications system. The access line tax is approximately \$1,000,000 per year, and is deposited in the City's Emergency Response Fund and used for, among other things, lease payments in respect of the purchase of communications equipment. The access line tax is not included in Table No. 15 below.

There is no time limit established for the collection of the utility users tax or the transient occupancy tax.

Other Taxes. The City receives a documentary stamp tax which is assessed for recordation of real property transfers, and the City charges certain taxes on new development.

**TABLE NO. 15
CITY OF PALM SPRINGS
TAX REVENUES BY SOURCE**

| | 2009 | 2010 | 2011 | Budget 2012 | Estimated 2012 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax | \$19,633,722 | \$16,122,178 | \$16,774,104 | \$17,373,345 | \$16,524,104 |
| Sales and Use Tax ⁽¹⁾ | 8,796,538 | 8,221,763 | 9,633,250 | 9,025,000 | 9,500,000 |
| Franchise Tax | 3,085,852 | 2,906,018 | 2,995,503 | 3,000,000 | 3,000,000 |
| Transient Occupancy Tax | 12,753,078 | 13,370,831 | 15,662,280 | 14,300,000 | 15,500,000 |
| Utility User Tax | 6,425,185 | 6,575,901 | 6,936,963 | 6,525,000 | 7,000,000 |
| Other Taxes | <u>466,025</u> | <u>2,631,653</u> | <u>616,788</u> | <u>470,500</u> | <u>470,500</u> |
| Total General Fund Tax Revenues | \$51,160,400 | \$49,828,344 | \$52,618,888 | \$50,693,845 | \$51,994,604 |
| Property Tax In Lieu of VLF ⁽²⁾ | \$ 4,019,856 | \$ 3,802,568 | \$ 3,578,466 | \$ 3,802,000 | \$ 3,578,466 |

Source: City of Palm Springs.

⁽¹⁾ City voters approved an additional 1% City sales tax, which will commence in April 2012. This additional sales tax is not included in this table.

⁽²⁾ See "Motor Vehicle License Fee" below. For budget purposes, these amounts are included in "Taxes."

Motor Vehicle License Fees

As described above, the City receives a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. The total VLF budgeted for Fiscal Year 2011/12 is \$3,922,000, of which \$120,000 is expected to be received through a payment from the State and is included in "Intergovernmental Revenue" in the City's budget. The balance of \$3.8 million is budgeted as property tax (shown in Table No. 15 above), to be received through an in lieu payment from State property tax revenues. In the City's financial statements, however, both these amounts are combined and shown as "Intergovernmental Revenues."

A temporary two-year increase in VLF rates went into effect on May 19, 2009 and expired on July 1, 2011. This increased the funding of VLF from fees and reduced the State's VLF backfill from the property tax realignment. See "RISK FACTORS - State Budget; Redevelopment Agency Legislation" herein. The temporary increase was not renewed by the State Legislature, and will have an estimated \$169,466 negative impact on the amount the City budgeted to receive from these fees in Fiscal Year 2011/12. This is reflected in the estimated revenues for Fiscal Year 2011/12.

Retirement Programs

California Public Employees Retirement System (PERS) Plan Description. The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy. Participants are required to contribute 8% of their annual covered salary for miscellaneous employees and 9% for safety employees. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and City contracts with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (“APC”) equal to the annual required contribution (“ARC”) plus an adjustment for the cumulative difference between the APC and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation (“NPO”). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of each June 30, the contribution rate for the particular year is multiplied by the payroll of covered employees that were paid during such fiscal year.

The excess of total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Changes in the liability due to subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period with the exception of special gains and losses in fiscal years 2008/2009, 2009/2010 and 2010/2011. Each of these years’ special gains or losses will be isolated and amortized over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization).

In addition, in February 2010 the PERS Board adopted a resolution requiring additional contributions for any plan or pool if their cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis of the plan to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043.

The necessary additional contribution will be obtained by changing the amortization period of gains and losses prior to 2009 to a period which will result in the satisfaction of the above criteria. PERS actuaries will reassess the criteria above when performing each future valuation to determine whether or not additional contributions are necessary.

Contribution Rates. The contribution requirements of plan members and the City are established by PERS. These rates are factored in to the City's budget.

PERS set contribution rates for 2010/11 based on a 4.9% negative return on investments which occurred in 2007/08. For the Fiscal Year 2008/09, the PERS portfolio had lost more than 23% of its value. This loss will begin affecting PERS contribution rates in 2011/12. The PERS portfolio rate of return was 11.6% for Fiscal Year 2009/10 and 20.9% for Fiscal Year 2010/11. The City's percentage of payroll for PERS payments for each retirement account for 2007/08 through 2012/13 and estimates for 2013/14 and for 2014/15 are shown in the table below.

| <u>Fiscal Year</u> | <u>Miscellaneous</u> | <u>Safety</u> |
|--------------------|----------------------|---------------|
| 2007/08 | 14.257% | 22.782% |
| 2008/09 | 14.421 | 22.844 |
| 2009/10 | 13.906 | 24.232 |
| 2010/11 | 14.910 | 24.626 |
| 2011/12 | 19.430 | 30.822 |
| 2012/13 | 18.800 | 32.959 |
| 2013/14* | 19.200 | 33.500 |
| 2014/15* | 19.700 | 34.000 |

* Projected by PERS.

Annual Pension Costs. The City's required annual pension cost and actual contribution for 2010/11 and the two previous years are shown in the table below. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included; (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.25% to 14.45% for miscellaneous employees and 3.55% to 13.15% for safety employees, depending on age, service, and type of employment, (c) 3.0% per year cost-of-living adjustments and (d) 3.55% payroll growth. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. PERS unfunded actuarial accrued liabilities (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period was 25 years for the miscellaneous employees' plan and 30 years for the safety employees' plan based on a 15-year smoothed market asset valuation method.

The City's 2011/12 budgeted pension cost is \$10,128,000.

THREE-YEAR TREND INFORMATION FOR PERS

(in \$ thousands)

Annual Pension Cost (Employer Contribution)

| <u>Fiscal Year</u> | <u>Annual Pension Cost</u> | <u>Annual Required Contribution</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------|-------------------------------------|--------------------------------------|-------------------------------|
| 6/30/09 | \$8,904 | \$9,251 | 104% | \$20,091 |
| 6/30/10 | 8,309 | 8,640 | 104% | 20,422 |
| 6/30/11 | 7,826 | 8,136 | 104% | 20,732 |

The Schedule of Funding Progress for each of the City's employee groups below shows the history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll from June 30, 2008 to June 30, 2010, the most current information available. The Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SCHEDULE OF FUNDING PROGRESS
(in \$ thousands)

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Asset Value | Unfunded Liability (UAAL) | Funded Rate | Annual Covered Payroll | UAAL As a % of Payroll |
|----------------|------------------------------------|-----------------------|---------------------------|-------------|------------------------|------------------------|
| <u>6/30/08</u> | | | | | | |
| Misc. | \$135,906 | \$124,864 | \$ 11,042 | 91.9% | \$ 20,006 | 55.2% |
| Safety | <u>159,721</u> | <u>141,960</u> | <u>17,761</u> | 88.9% | <u>13,411</u> | 132.4% |
| Total | <u>\$295,627</u> | <u>\$266,824</u> | <u>\$ 28,803</u> | 90.3% | <u>\$ 33,417</u> | 86.2% |
| <u>6/30/09</u> | | | | | | |
| Misc. | \$148,807 | \$130,340 | \$ 18,467 | 87.6% | \$ 18,441 | 100.1% |
| Safety | <u>176,638</u> | <u>147,067</u> | <u>29,571</u> | 83.3% | <u>14,531</u> | 203.5% |
| Total | <u>\$325,445</u> | <u>\$277,407</u> | <u>\$ 48,038</u> | 85.2% | <u>\$ 32,972</u> | 145.7% |
| <u>6/30/10</u> | | | | | | |
| Misc. | \$155,789 | \$134,896 | \$ 20,893 | 86.6% | \$ 18,135 | 115.2% |
| Safety | <u>184,335</u> | <u>152,290</u> | <u>32,045</u> | 82.6% | <u>13,459</u> | 238.1% |
| Total | <u>\$340,124</u> | <u>\$287,186</u> | <u>\$ 52,938</u> | 84.4% | <u>\$ 31,594</u> | 167.6% |

As of June 30, 2010, the market value of assets in the miscellaneous plan was \$104,873,901, representing a funded status on a market value basis of 67.3%. As of June 30, 2009, the market value of assets in the miscellaneous plan was \$94,652,301, representing a funded status on a market value basis of 63.6%, compared to June 30, 2008, when the market value of assets was \$126,669,695 and the funded status on a market value basis was 93.2%.

As of June 30, 2010, the market value of assets in the Safety plan was \$118,233,380, representing a funded status on a market value basis of 64.1%. As of June 30, 2009, the market value of assets in the Safety plan was \$106,571,431, representing a funded status on a market value basis of 60.3%, compared to June 30, 2008, when the market value of assets was \$144,286,573 and the funded status on a market value basis was 90.3%.

Other Post Employment Benefits

Plan Description. The City provides retiree medical benefits under the PERS health plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for a PERS pension. The benefits are available only to prior and existing employees who retire from the City. It does not provide for benefits to newly-hired employees on a going forward basis. Membership of the plan consisted of 357 eligible active employees and 150 enrolled eligible retirees at June 30, 2011. These amounts do not reflect current retirees not enrolled in the PERS health plan who are eligible to enroll in the plan at a later date.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and bargaining unit requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for Fiscal Year 2009/10 and 2010/11, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

| | <u>2009/10</u> | <u>2010/11</u> |
|--|---------------------|---------------------|
| Annual required contribution | \$ 5,999,053 | \$ 6,696,932 |
| Interest on net OPEB obligation | 230,233 | 454,867 |
| Adjustment to annual required contribution | <u>(77,256)</u> | <u>(441,707)</u> |
| Annual OPEB cost (expense) | 6,152,030 | 6,710,092 |
| Contributions made (including premiums paid) | <u>(1,160,158)</u> | <u>(1,829,452)</u> |
| Increase in net OPEB obligation | 4,991,872 | 4,880,640 |
| Net OPEB obligation-beginning of year | <u>5,116,285</u> | <u>10,108,157</u> |
| Net OPEB obligation-end of year | <u>\$10,108,157</u> | <u>\$14,988,797</u> |

The City's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for Fiscal Years 2008/09 through 2010/11, and the net OPEB obligation as of June 30, 2009, June 30, 2010 and June 30, 2011 were as follows:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net Pension Obligation</u> |
|------------------------|-----------------------------|--|-----------------------------------|
| 6/30/09 | \$5,999,053 | 14.7% | \$ 5,116,285 |
| 6/30/10 | 6,152,030 | 18.9% | 10,108,157 |
| 6/30/11 | 6,710,092 | 27.3% | 4,988,797 |

The City's annual contribution to OPEB costs is estimated to be \$1,846,000 for Fiscal Year 2011/12. This estimated OPEB contribution is factored in to the City's 2011/12 budget.

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

SCHEDULE OF FUNDING PROGRESS
(in \$ thousands)

| Actuarial Valuation Date | Entry Age Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------------------|---------------------------|---------------------|--------------|-----------------|---|
| 6/30/09 | \$77,025,425 | \$ - | \$77,025,425 | 0% | \$31,245,000 | 246.5% |
| 6/30/10 | 99,590,050 | - | 99,590,050 | 0% | 26,309,954 | 378.5% |

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 4.5% investment rate of return, which is based on assumed long-term investment returns on plan assets, and an annual healthcare cost trend rate of 9.5%, graded down by 0.5% per year to an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over 30 years. The remaining amortization period as of June 30, 2011 is 28 years. It is assumed the City's payroll will increase 3.25% per year.

Employee Relations and Collective Bargaining

City employees are represented by 6 labor unions and associations. Currently 87% of all City employees are covered by negotiated agreements. All agreements expire June 30, 2012.

| <u>Bargaining Unit</u> | <u># of Employees</u> |
|-----------------------------|-----------------------|
| Management and Professional | 66 |
| General | 163 |
| Police Management | 4 |
| Police Safety | 80 |
| Fire Management | 18 |
| Fire Safety | 33 |

Risk Management

The City is exposed to various risks of loss related to its operation, including losses associated with errors and omissions, injuries to employees and members of the public. The City's Internal Service Risk Management Fund is used to account for and finance its uninsured risks of loss.

The City purchases commercial insurance from The Everest National Insurance Company ("ENIC") for general liability claims. Under this policy, ENIC covers claims in excess of the City's self-insured retention of \$300,000 per occurrence and provides general liability coverage up to \$10,000,000 per claim.

The City of Palm Springs purchases commercial workers' compensation insurance from Safety National Casualty Corporation. Under this policy, employers recover claims in excess of the City's self insured retention of \$1,000,000 and provides employer's liability coverage up to \$50,000,000 in addition to workers' compensation statutory limits.

During the past three fiscal (claims) years, none of the above programs of protection have had any settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in the prior year.

The claims and judgments liability reported in the Internal Service Risk Management Fund is based on the requirements of Governmental Accounting Standards Board Statements No. 10 and No. 30, which requires that a liability for claims and judgments be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of June 30, 2010 and June 30, 2011, claims and judgments payable, including estimated claims for incurred but not reported claims, amounted to \$2,653,395 and \$3,743,034 respectively.

City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. Under the City's Investment Policy and in accordance with the Government Code, the City may invest in the following types of investments subject to certain limitations on maturity and amount:

U.S. Treasury Obligations, U.S. Agency Securities, Negotiable Certificates of Deposit, Medium-Term Notes, Money Market Mutual Funds, Mortgage Pass-Through Securities, County Pooled Investment Funds, and Local Agency Investment Fund.

As of January 31, 2012, the market value of the City Treasurer's investment portfolio (excluding funds deposited in checking accounts) was \$33,908,134. Prior to January 31, 2012, the City withdrew most of its fund on deposit in the State's Local Agency Investment Fund, and \$58,250,821 was on deposit in checking accounts with Bank of America. The diversification of the City Treasurer's investment portfolio assets as of such date is shown in the following table.

| <u>Type of Investment</u> | <u>% of Combined Portfolio</u> |
|------------------------------|--------------------------------|
| U.S. Government Agencies | 36.78% |
| Local Agency Investment Fund | 0.02 |
| Checking Account Deposits | <u>63.20</u> |
| | 100.0% |

The weighted average maturity of the investment portfolio was 62 days. The current yield of the investment portfolio at January 31, 2012 was ___%.

Obligations of the City

Except as noted below, the City had the following outstanding indebtedness as of March 1, 2012 payable from the City's General Fund, exclusive of obligations to be paid from specifically pledged revenues, such as revenue bonds, tax allocation bonds and assessment bonds. It includes obligations that the City allocates internally to other special revenue funds, as described below.

| Category of Obligation | Original Issue | Amount Outstanding | Final Maturity |
|---|----------------|--------------------|----------------|
| (1) 2002 Certificates of Participation | \$ 8,000,000 | \$ 7,605,000 | 2027 |
| (2) 2004 Lease Revenue Bonds | 62,395,000 | 54,640,000 | 2035 |
| (3) 2007 Pension Obligation Bonds | 19,832,588 | 20,349,536 | 2035 |
| (4) 2007 Lease Revenue Bonds | 20,365,000 | 16,280,000 | 2027 |
| (5) 2012 Series A Lease Revenue Refunding Bonds | 23,980,000 | 23,980,000 | 2025 |
| (6) Capital Leases | 5,101,685 | 3,809,963 | 2009 |
| (7) Note Payable | 183,763 | 44,288 | 2013 |
| (8) Compensated Absences | 5,477,189 | 5,477,189 | N/A |

- (1) In 2002, the City entered into a lease agreement with the Authority to pay rental payments securing the Authority's Taxable Variable Rate Demand Certificates of Participation, 2002 Series A. Interest is payable at a variable rate of interest. The annual lease payments, including credit fees, are estimated to be \$300,000 in Fiscal Year 2011/12, based on an estimated interest rate of 0.33%. The current letter of credit securing these Certificates is issued by Union Bank with a confirming letter of credit issued by California State Teachers Retirement System. The letter of credit expires July 31, 2012 and the confirming letter of credit expires July 31, 2014.
- (2) The 2004 Lease Revenue Bonds were issued to finance an expansion of the City's Convention Center. Together with the debt service on the 2012 Series A Lease Revenue Refunding Bonds described below, lease payments are approximately \$5.7 million annually for the financings relating to the Convention Center facility.
- (3) The City issued Taxable Pension Obligation Bonds in March 2007. Proceeds of the bonds were deposited in the City's account with the California Public Employees' Retirement System in order to fund a portion of the City's unfunded pension actuarial accrued liability. Debt service payments are \$1,074,000 in Fiscal Year 2011/12 and increase annually by approximately 4% per year. The outstanding balance above includes the accreted value of capital appreciation bonds.
- (4) In 2007, the City entered into a lease agreement with the Authority to pay rental payments securing the Authority's 2007 Lease Revenue Bonds issued to refinance obligations relating to various City capital improvements, including a golf course. The lease payments are approximately \$1,750,000 through 2013, declining to \$1,600,000 through 2016, and declining to \$1,350,000 thereafter. Approximately \$950,000 annual debt service through maturity is allocable to and paid by the City's Golf Course Enterprise Fund. Approximately \$250,000 of annual debt service through maturity (together with another \$150,000 annual debt service through 2013) is allocable to and paid by the City's Co-Generation Plant Internal Service Fund.
- (5) In February 2012, the City issued 2012 Series A Lease Revenue Refunding Bonds to refinance certain debt relating to the financing of the Convention Center facility.

- (6) The City has entered into lease agreements to finance the acquisition of fire trucks and emergency communications equipment. Annual lease payments are approximately \$648,000 in Fiscal Year 2011/12 and are reduced over time as certain leases are paid off. The lease payments relating to fire trucks are paid from the City's Motor Vehicle Replacement Fund and the lease payments relating to the emergency communications equipment are paid from the City's Emergency Response Fund (funded with a voter-approved access line fee).
- (7) The City borrowed \$183,763 from the California Energy Commission in 2001. Annual payments are approximately \$24,000 through 2013.
- (8) Represents that portion of compensated absences not expected to be paid during the current year, as of June 30, 2011.

Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, as of June 30, 2011. 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. Any inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics.

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 are not payable from the City's General Fund nor are they necessarily obligations secured by property within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**TABLE NO. 16
CITY OF PALM SPRINGS
DIRECT AND OVERLAPPING DEBT**

2010/11 Assessed Valuation: \$9,156,830,625
 Redevelopment Incremental Valuation: 1,634,627,398
 Adjusted Assessed Valuation: \$7,522,203,227

| <u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | Total Debt 6/30/11 | % Applicable (1) | City's Share of Debt 6/30/11 |
|--|-----------------------|------------------|---------------------------------|
| Desert Community College District | \$322,389,659 | 23.195% | \$ 74,778,281 |
| Banning Unified School District | 46,349,000 | 0.270 | 125,142 |
| Palm Springs Unified School District | 338,021,439 | 56.378 | 190,569,727 |
| San Geronio Memorial Hospital District | 107,960,000 | 0.097 | 104,721 |
| City of Palm Springs 1915 Act Bonds | 8,410,000 | 100. | <u>8,410,000</u> |
| TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT | | | \$273,987,871 |

Ratios to 2010/11 Assessed Valuation:
 Total Overlapping Tax and Assessment Debt 2.99%

| <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u> | | | |
|---|--------------------|-------------|----------------------|
| Riverside County General Fund Obligations | \$696,634,853 | 5.144% | \$ 35,834,897 |
| Riverside County Pension Obligations | 366,945,000 | 5.144 | 18,875,651 |
| Riverside County Board of Education Certificates of Participation | 6,170,000 | 5.144 | 317,385 |
| Mt. San Jacinto Community College District General Fund Obligations | 12,215,000 | 0.009 | 1,099 |
| City of Palm Springs General Fund Obligations | 103,895,000 | 100. | 103,895,000 |
| City of Palm Springs Pension Obligations | 19,383,620 | 100. | 19,383,620 |
| Coachella Valley County Water District Storm Water Unit Certificates of Participation | 2,750,000 | 0.212 | <u>5,830</u> |
| TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT | | | \$178,313,482 |
| Less: Riverside County self-supporting obligations | | | <u>710,036</u> |
| TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT | | | \$177,603,446 |

TOTAL DIRECT DEBT **\$123,278,620**
TOTAL GROSS OVERLAPPING DEBT **\$329,022,733**
TOTAL NET OVERLAPPING DEBT **\$328,312,697**

GROSS COMBINED TOTAL DEBT **\$452,301,353 (2)**
NET COMBINED TOTAL DEBT **\$451,591,317**

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Adjusted Assessed Valuation:
Total Direct Debt (\$123,278,620) 1.64%
 Gross Combined Total Debt 6.01%
 Net Combined Total Debt 6.00%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Oakland California.

Financial Statements

The City's accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The City retained the firm of Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2011. The following tables summarize the audited Balance Sheet and audited Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund and Community Promotions Fund for the last five fiscal years. The Community Promotions Fund was set up by policy of the City Council and moneys deposited to this fund, while not legally restricted, are used for the Convention Visitor's Bureau, the City's Tourism Division and Convention Center. However, the revenues of the Community Promotions Fund are available for purposes of the General Fund, and to a large extent, pay a portion of General Fund expenditures for the Convention Center. The City has determined to no longer show the Community Promotions Fund as a separate fund for financial reporting purposes, beginning with Fiscal Year ending June 30, 2011.

See "APPENDIX B" hereto for the audited financial statements for the fiscal year ended June 30, 2011. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

The City was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

**TABLE NO. 17
CITY OF PALM SPRINGS
GENERAL FUND BALANCE SHEET
As of June 30**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Assets: | | | | | |
| Pooled cash and investments | \$ 8,034,239 | \$12,980,238 | \$ 9,319,711 | \$ 6,863,687 | \$14,157,502 |
| Receivables: | | | | | |
| Accounts | 1,905,490 | 4,868,429 | 4,381,398 | 4,417,412 | 5,182,777 |
| Notes and Loans | 300,000 | - | - | - | - |
| Accrued interest | 793,259 | 793,259 | 793,259 | 793,259 | 793,259 |
| Deposits | - | - | - | - | 200,000 |
| Advances to other funds | 3,221,785 | 3,221,785 | 3,221,785 | 3,221,785 | 2,815,000 |
| Land held for resale | - | - | 49,950 | 49,950 | 49,950 |
| Due from other governments | <u>3,133,325</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$17,388,098</u> | <u>\$21,863,711</u> | <u>\$17,766,103</u> | <u>\$15,346,093</u> | <u>\$23,198,488</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,736,144 | \$ 1,557,873 | \$ 1,176,510 | \$ 1,013,376 | \$ 1,690,747 |
| Accrued liabilities | - | - | - | 1,572,805 | 1,157,967 |
| Accrued wages payable | 1,017,702 | 1,114,264 | 1,753,406 | - | - |
| Deferred revenue | 1,442,223 | 1,906,715 | 2,065,622 | 2,065,622 | 1,568,259 |
| Deposits Payable | - | - | - | - | 4,457 |
| Advances from other funds | <u>-</u> | <u>-</u> | <u>49,950</u> | <u>49,950</u> | <u>49,950</u> |
| Total Liabilities | <u>4,196,069</u> | <u>4,578,852</u> | <u>5,045,488</u> | <u>4,701,753</u> | <u>4,471,380</u> |

Continued on next page.

**TABLE NO. 17
CITY OF PALM SPRINGS
GENERAL FUND BALANCE SHEET
As of June 30**

Continued from previous page.

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Encumbrances | \$ 450,877 | \$ 259,905 | \$ 208,255 | \$ 271,508 | \$ - |
| Land held for resale | - | - | 49,950 | 49,950 | - |
| Notes and loans | 300,000 | - | - | - | - |
| Advances to other funds | 3,221,785 | 3,221,785 | 3,221,785 | 3,221,785 | 2,815,000 |
| Continuing appropriations | - | 816,332 | 336,839 | 370,536 | - |
| 911 fees ⁽¹⁾ | - | 1,104,800 | 1,848,115 | - | - |
| Deposits | - | - | - | - | 200,000 |
| Unreserved: | | | | | |
| General Fund | | | | | |
| Undesignated | 9,219,367 | 11,882,037 | 7,055,671 | 6,730,561 | - |
| Assigned to: | | | | | |
| Public Safety | - | - | - | - | 16,661 |
| Parks and Recreation | - | - | - | - | 25,301 |
| Public Works | - | - | - | - | 23,185 |
| Continuing appropriations | - | - | - | - | 1,841,258 |
| General government | - | - | - | - | 305,928 |
| Library | - | - | - | - | 20,402 |
| Anticipated future obligations | - | - | - | - | 1,700,000 |
| Unassigned | - | - | - | - | <u>11,779,373</u> |
| Total Fund Balances | <u>\$13,192,029</u> | <u>\$17,284,859</u> | <u>\$12,720,615</u> | <u>\$10,644,340</u> | <u>\$18,727,108</u> |
| Total Liabilities and Fund Balances | <u>\$17,388,098</u> | <u>\$21,863,711</u> | <u>\$17,766,103</u> | <u>\$15,346,093</u> | <u>\$23,198,488</u> |

Source: City of Palm Springs Comprehensive Annual Financial Report.

⁽¹⁾ Accumulated emergency fees, transferred to the City's Emergency Response Fund in Fiscal Year 2009/10.

**TABLE NO. 18
CITY OF PALM SPRINGS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | | |
| Taxes ⁽¹⁾ | \$39,853,321 | \$39,463,504 | \$38,407,322 | \$42,303,836 | \$52,618,888 |
| Licenses and permits | 3,629,406 | 3,332,131 | 2,486,344 | 2,185,432 | 2,488,279 |
| Fines and penalties ⁽²⁾ | 501,950 | 640,187 | 537,607 | - | - |
| Intergovernmental | 5,589,720 | 6,013,555 | 6,416,391 | 5,328,699 | 5,133,038 |
| Charges for services | 5,391,377 | 5,070,234 | 4,245,170 | 4,547,430 | 4,646,687 |
| Use of money and property ⁽³⁾ | 1,160,650 | 3,306,800 | 5,485,647 | 3,081,817 | 339,641 |
| Transient occupancy taxes ⁽¹⁾ | 6,324,004 | 6,283,252 | 5,549,063 | - | - |
| Contributions | 37,637 | 35,000 | 77,859 | 108,402 | 190,962 |
| Miscellaneous | <u>422,079</u> | <u>383,008</u> | <u>297,353</u> | <u>549,213</u> | <u>559,475</u> |
| Total Revenues | <u>62,910,144</u> | <u>64,527,671</u> | <u>63,502,756</u> | <u>58,104,829</u> | <u>65,976,970</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 8,084,032 | 8,957,134 | 9,600,391 | 8,359,253 | 8,127,888 |
| Public safety | 29,894,888 | 31,885,940 | 33,961,616 | 31,374,847 | 28,274,204 |
| Cultural and convention center ⁽⁴⁾ | - | - | - | - | 2,421,474 |
| Public works | 8,045,078 | 8,559,571 | 8,379,925 | 7,318,516 | 6,949,371 |
| Parks and recreation | 5,646,410 | 5,956,366 | 6,344,562 | 5,726,043 | 7,913,049 |
| Library | 2,202,037 | 2,552,966 | 2,811,349 | 2,057,261 | 1,888,598 |
| Debt service ⁽⁵⁾ | | | | | |
| Principal retirement | - | - | - | - | 1,555,000 |
| Interest and fiscal charges | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,656,613</u> |
| Total Expenditures | <u>53,872,445</u> | <u>57,911,977</u> | <u>61,097,843</u> | <u>54,835,920</u> | <u>59,786,197</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>9,037,699</u> | <u>6,615,694</u> | <u>2,404,913</u> | <u>3,268,909</u> | <u>6,190,773</u> |

Continued on next page.

Source: City of Palm Springs Comprehensive Annual Financial Report.

- (1) Prior to 2009/10, transient occupancy taxes were shown separately from other taxes in the financial statements. In addition, only a portion of transient occupancy taxes were recorded in the General Fund, with the balance recorded in the Community Promotions Fund. See Table No. 15 and 19.
- (2) Beginning in 2009/10, fines and penalties were combined with charges for services.
- (3) Prior to 2009/10, separate amounts were shown in the financial statements for "investment income" and "rental income." They have been combined and shown above as "Use of Money and Property" for comparison purposes.
- (4) Prior to Fiscal Year 2010/11, these expenditures were recorded in the Community Promotions Fund.
- (5) Prior to Fiscal Year 2010/11, these expenditures were included in "transfers out" to the City's Debt Service Fund, in both the General Fund and the Community Promotions Fund.

TABLE NO. 18
CITY OF PALM SPRINGS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

Continued from previous page.

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Other Financing Sources (Uses): | | | | | |
| Transfers in | \$ 600,000 | \$ 1,000,000 | \$ 4,255,000 | \$ 5,570,356 | \$ 4,538,924 |
| Transfers out | <u>(2,910,742)</u> | <u>(3,522,864)</u> | <u>(11,224,157)</u> | <u>(11,475,540)</u> | <u>(2,646,929)</u> |
| Total Other Financing Sources (Uses) | <u>(2,310,742)</u> | <u>(2,522,864)</u> | <u>(6,969,157)</u> | <u>(5,905,184)</u> | <u>1,891,995</u> |
| Net Change in Fund Balances | \$ 6,726,957 | \$ 4,092,830 | (\$ 4,564,244) | (\$ 2,636,275) | \$ 8,082,768 |
| Fund Balances, Beginning of Year, as previously reported | <u>6,465,072</u> | <u>13,192,029</u> | <u>17,284,859</u> | <u>12,720,615</u> | <u>10,644,340</u> |
| Restatements | <u>-</u> | <u>-</u> | <u>-</u> | <u>560,000</u> | <u>-</u> |
| Fund Balances, Beginning of Year, as restated | <u>6,465,072</u> | <u>13,192,029</u> | <u>17,284,859</u> | <u>13,280,615</u> | <u>10,644,340</u> |
| Fund Balances, End of Year | <u>\$13,192,029</u> | <u>\$17,284,859</u> | <u>\$12,720,615</u> | <u>\$10,644,340</u> | <u>\$18,727,108</u> |

**TABLE NO. 19
CITY OF PALM SPRINGS
COMMUNITY PROMOTIONS FUND
BALANCE SHEET
For the year ended June 30**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011 ⁽¹⁾</u> |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|----------------------------|
| Assets | | | | | |
| Pooled cash and investments | \$2,764,846 | \$ - | \$ - | \$ 67,803 | \$ - |
| Deposits | 200,000 | 200,000 | 200,000 | 200,000 | - |
| Receivables: | | | | | - |
| Accounts | <u>1,155,380</u> | <u>1,237,550</u> | <u>888,780</u> | <u>952,385</u> | <u>-</u> |
| Total Assets | <u>\$4,120,226</u> | <u>\$1,437,550</u> | <u>\$1,088,780</u> | <u>\$1,220,188</u> | <u>\$ -</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$1,456,859 | \$ 152,646 | \$ 338,516 | \$ 325,421 | \$ - |
| Due to other funds | - | 1,021,393 | - | - | - |
| Deposits payable | <u>182,036</u> | <u>190,201</u> | <u>194,406</u> | <u>195,691</u> | <u>-</u> |
| Total Liabilities | <u>1,638,895</u> | <u>1,364,240</u> | <u>532,922</u> | <u>521,112</u> | <u>-</u> |
| Fund Balance: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 4,222 | 1,472 | - | 2,363 | - |
| Deposits | 200,000 | 200,000 | 200,000 | - | - |
| Continuing appropriations | 375,226 | 254,161 | 193,563 | 10,000 | - |
| Unreserved: | | | | | |
| Special purposes | 1,901,883 | - | - | - | - |
| Undesignated | <u>-</u> | <u>(382,323)</u> | <u>162,295</u> | <u>686,713</u> | <u>-</u> |
| Total Fund Balances | <u>\$2,481,331</u> | <u>\$ 73,310</u> | <u>\$ 555,858</u> | <u>\$ 699,076</u> | <u>\$ -</u> |
| Total Liabilities and Fund Balances | <u>\$4,120,226</u> | <u>\$1,437,550</u> | <u>\$1,088,780</u> | <u>\$1,220,188</u> | <u>\$ -</u> |

Source: City of Palm Springs Comprehensive Annual Financial Report.

⁽¹⁾ Beginning with the Fiscal Year ending June 30, 2011, the Community Promotions Fund is no longer reported separately from the City's General Fund.

**TABLE NO. 20
CITY OF PALM SPRINGS
COMMUNITY PROMOTIONS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011 ⁽¹⁾</u> |
|--|--------------------|--------------------|-------------------|--------------------|----------------------------|
| Revenues: | | | | | |
| Rental income | \$ 12,000 | \$ 12,148 | \$ 12,000 | \$ 12,000 | \$ - |
| Charges for services | 26,500 | 1,000 | - | - | - |
| Transient occupancy taxes | 8,141,635 | 8,181,233 | 7,204,015 | 7,524,508 | - |
| Donations and contributions | 124,697 | 115,239 | 99,432 | 95,911 | - |
| Miscellaneous | <u>72,330</u> | <u>39,096</u> | <u>66,766</u> | <u>57,240</u> | <u>-</u> |
| Total Revenues | <u>8,377,162</u> | <u>8,348,716</u> | <u>7,382,213</u> | <u>7,689,659</u> | <u>-</u> |
| Expenditures: | | | | | |
| General government | 2,812,283 | 3,042,554 | 2,983,557 | 2,100,514 | - |
| Cultural and convention center | 2,954,766 | 2,345,989 | 2,379,047 | 2,027,671 | - |
| Parks and recreation | <u>839,642</u> | <u>1,234,881</u> | <u>884,981</u> | <u>718,256</u> | <u>-</u> |
| Total Expenditures | <u>6,606,691</u> | <u>6,623,424</u> | <u>6,247,585</u> | <u>4,846,441</u> | <u>-</u> |
| Excess (deficiency) of Revenues Over (under) Expenditures | <u>1,770,471</u> | <u>1,725,292</u> | <u>1,134,628</u> | <u>2,843,218</u> | <u>-</u> |
| Other Financing Sources (uses): | | | | | |
| Transfers in | - | 1,260,000 | - | - | - |
| Transfers out | <u>(6,692,745)</u> | <u>(5,393,313)</u> | <u>(652,080)</u> | <u>(2,700,000)</u> | <u>(699,076)</u> |
| Total Other Financing Sources (uses) | <u>(6,692,745)</u> | <u>(4,133,313)</u> | <u>(652,080)</u> | <u>(2,700,000)</u> | <u>(699,076)</u> |
| Net change in fund balance | (4,922,274) | (2,408,021) | 482,548 | 143,218 | (699,076) |
| Fund Balance at Beginning of Year | <u>7,403,605</u> | <u>2,481,331</u> | <u>73,310</u> | <u>555,858</u> | <u>699,076</u> |
| Fund Balance at End of Year | <u>\$2,481,331</u> | <u>\$ 73,310</u> | <u>\$ 555,858</u> | <u>\$ 699,076</u> | <u>\$ -</u> |

Source: City of Palm Springs Comprehensive Annual Financial Report.

⁽¹⁾ Beginning with the Fiscal Year ending June 30, 2011, the Community Promotions Fund is no longer reported separately from the City's General Fund.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Lease Payments

City's Lease Payments and Other Payments. The Lease Payments and other payments due under the Lease Agreement (including a proportionate share of the costs of improvement, repair and maintenance of the Leased Property and taxes, other governmental charges and assessments levied against the Leased Property) are not secured by any pledge of taxes or other revenues of the City but are payable from yearly appropriations of any funds lawfully available to the City. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other services before paying Lease Payments and other payments due under the Lease Agreement. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitations on Taxes and Expenditures" below). To the extent these types of events or other events adversely affecting the funds available to the City occur in any year, the funds available to pay Lease Payments may be decreased.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to the City to pay Lease Payments may be decreased (see "FINANCIAL INFORMATION - Obligations of the City" herein).

Abatement. The amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction to the Leased Property or eminent domain proceedings there is substantial interference with the use and possession of the Leased Property. Notwithstanding the provisions of the Lease Agreement and the Indenture specifying the extent of abatement in the event of the City's failure to have use and possession of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments may not be sufficient to pay all of that portion of the remaining principal and interest represented by the Bonds. The amount of such abatement shall reduce the Lease Payments applicable to the Bonds.

Earthquake Risk. According to the Seismic Safety Element of the City's General Plan, the City is located in a seismically active region and the Leased Property could be impacted by a major earthquake originating from the numerous faults in the area. Seismic hazards encompass both potential surface rupture and ground shaking. These hazards could result in damage to the Leased Property, and possibly, abatement of all or a portion of the Lease Payments.

The Palm Springs planning area has numerous fault traces that are part of the larger San Andreas Fault Zone. Small magnitude earthquakes have occurred on these faults periodically. Of primary concern are the Banning Fault, the Palm Canyon Fault and the San Jacinto Fault. Ground rupture occurred along the Banning Fault Zone as a result of a magnitude 5.9 earthquake on July 8, 1986. Only minor damage was sustained by any structures within the City. The San Jacinto Fault approaches within 6.5 miles of the City and is considered to be one of the major branches of the San Andreas Fault system, extending from Cajon Pass (near San Bernardino) into Mexico. The San Jacinto Fault Zone is considered to be the most seismically active fault zone in southern California. The Palm Canyon Fault is exposed in the bedrock in the southeastern portion of the City and has been inferred by researchers as extending northward beneath the City under the alluvium. No evidence is available as to the existence or precise location of the Palm Canyon Fault within the alluvium or regarding its potential activity.

No repairs to the Leased Property were required as a result of any recent earthquake. The City makes no representation regarding the impact that a future seismic event may have on the Leased Property.

If the Leased Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Lease Payments will be partially or completely abated. Apart from the Net Proceeds of insurance, the City and the Authority will have no obligation to expend any funds to repair or replace such damaged or destroyed property. If any Leased Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance or amounts in the Reserve Account are available, any such abatement could prevent the City from making timely Lease Payments. As noted, the City's insurance policy limit for property damage of City facilities is \$10,000,000 per occurrence (including damage from earthquake or flooding). It is possible that if there were damage to numerous City facilities and the damage was greater than \$10,000,000, the City might choose to apply available insurance proceeds to other City facilities before repairing the Leased Property. The City does have a separate \$25 million insurance policy for the Wastewater Treatment Plant, in addition to the policy for all other City facilities.

Insurance. The Lease Agreement obligates the City to obtain and keep in force various forms of insurance, to assure repair or replacement of the Leased Property in the event of damage or destruction to the Leased Property (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - THE LEASE AGREEMENT - Insurance" herein). The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, certain risks may not be covered by such property insurance (see "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Leased Property" herein).

In the event the Leased Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Lease Payments will be partially or completely abated. Apart from the proceeds of insurance, the City and the Authority will have no obligation to expend any funds to repair or replace such damaged or destroyed property. If any Leased Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance are available, any such abatement could prevent the City from timely paying Lease Payments.

Discovery of a Hazardous Substance That Would Limit the Beneficial Use of the Property. In general, the owners and lessees of a parcel may be required by law to remedy conditions of the property relating to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 sometimes referred to as CERCLA or the Superfund Act, is the most well known and widely applicable of these laws but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or lessee) is obligated to remedy a hazardous substance condition of property whether or not the owner (or lessee) had any involvement in creating or handling the hazardous substance. The effect, therefore, should the Leased Property be affected by a hazardous substance, might be to limit the beneficial use of the Leased Property upon discovery and during remediation. The City is not aware of any such condition on the properties.

State Budget; Redevelopment Agency Legislation

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

State Budget. The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Each State budget contains a number of measures which impact the City's finances.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior years. Following the submission of the Governor's Budget, the California Legislature takes up the proposal.

Under the California State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary sources of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Prior to the November 2, 2010 California General Election, the Budget Act required approval by a two-thirds majority vote of each House of the Legislature. On November 2, 2010, California voters passed Proposition 25, which amended this legislative vote requirement to a simple majority. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Governor's Proposed 2011/12 Budget. Governor Brown released his proposed budget for Fiscal Year 2011/12 (the "Governor's Proposed 2011/12 Budget") on January 10, 2011. The proposed budget projected a budget gap of \$25.4 billion in 2011/12, consisting of a 2010/11 shortfall of \$8.2 billion and a 2011/12 shortfall of \$17.2 billion. The Governor's Proposed 2011/12 Budget provided for \$26.4 billion in cuts, taxes and other budget actions, and included a \$1 billion reserve.

The Governor's Proposed 2011/12 Budget included \$12.5 billion in reduced expenditures. Substantial spending reductions included a \$1.7 billion reduction to Medi-Cal; a \$1.5 billion reduction to CalWORKs; and a \$0.75 billion reduction to the Department of Developmental Services. Other major non-tax proposals in the Governor's Proposed 2011/12 Budget included \$1.8 billion of borrowing from special funds; \$1.7 billion of property tax shifts in connection with the ending of redevelopment agencies (see "Redevelopment Legislation" below); use of \$1.0 billion from Proposition 10 funds; and use of \$0.9 billion from Proposition 63 funds. Major revenue proposals in the Governor's Proposed 2011/12 Budget generally consisted of extension on existing revenues which would otherwise expire June 30, 2011.

The Governor's Proposed 2011/12 Budget included a major realignment of state and local program duties. The Governor's Proposed 2011/12 Budget proposed \$6.3 billion in taxes, and shifted \$5.9 billion to counties to implement increased program obligations. To enable counties to manage their increased fiscal responsibilities, the State budget gave the counties increased authority over the 2011 realigned programs, including adjusting program levels to align with State funding levels. Programs being shifted include responsibility for lower-level offenders and parole violators, foster care and child welfare services, community mental health, adult protective services, court security and substance abuse programs. The

Governor's Proposed 2011/12 Budget proposed the phasing out of state authorization for two economic development programs: redevelopment and enterprise zones.

The Governor's Proposed 2011/12 Budget assumed that all necessary statutory changes to implement budget solutions would be adopted by the Legislature and signed by the Governor by March. This would have allowed the necessary ballot measures to be placed before the voters at a statewide special election to be called for June 2011. While, as described below, the Legislature enacted a significant portion of the spending reductions in the Governor's Proposed 2011/12 Budget, it did not enact legislation necessary to provide for the June election.

May Revision to the 2011/12 Proposed State Budget. On May 16, 2011, Governor Brown released the May Revision to the Governor's Proposed 2011/2012 Budget (the "May Revision"). The May Revision estimated that \$25.4 billion budget gap included in the Governor's Proposed 2011/2012 Budget had been reduced by approximately \$13.4 billion. This reduction resulted from expenditure and revenue measures implemented by a series of budget bills adopted in February and March of 2011, as well as the receipt of higher-than anticipated projected tax revenues totaling approximately \$6.3 billion. Taken together with other minor revenue adjustments, the May Revision projected a revised budget deficit of \$9.6 billion. To address this budget gap, the May Revision proposed measures totaling \$10.8 billion for both fiscal years 2010/11 and 2011/12. These measures were in addition to, or modify, those set out by the Proposed Budget. Assuming the implementation of these measures, the May Revision assumed, for Fiscal Year 2010/11, year-end revenues of \$88.8 billion and expenditures of \$91.6 billion. The May Revision projected that the State would end the 2010/11 fiscal year with a deficit of \$2.8 billion. For Fiscal Year 2011/12, the May Revision projected total revenues of \$90.8 billion and expenditures of \$88.8 billion, and projects the State will end the 2011/12 fiscal year with a surplus of \$1.2 billion.

The May Revision retained several key features included in the Governor's Proposed Budget, including the Governor's proposal to eliminate redevelopment agencies, the extension of sales and use taxes, vehicle license fees and dependent exemption credits for an additional five years (all of these extensions remain subject to voter approval), and an amended version of the Governor's plan to shift the delivery of certain health and safety services from state agencies to local governments.

The May Revision also described other long term obligations of the State in the tens of billions of dollars, including obligations pursuant to Proposition 98, the Unemployment Insurance Fund debt service with respect to authorized general obligation debt expected to be issued, and budgetary borrowing, including deferred payments to schools and community colleges, outstanding economic recovery bonds, unpaid costs to local governments, schools and community colleges for state mandates, underfunding of Proposition 98, and borrowing from local government pursuant to Proposition 1A. The May Revision also noted that unfunded liabilities in the state's retirement system are more than \$100 billion for pensions and retiree health, and retirement systems for University of California employees and teachers have accumulated tens of billions of additional liabilities.

On June 15, 2011, the State Legislature passed a budget bill that included additional spending cuts, higher fees and inter-fund borrowing. On June 16, 2011, the Governor vetoed the budget and returned it for the Legislature's reconsideration.

2011/12 Adopted State Budget. On June 28, 2011, the State Legislature passed, and on June 30, 2011 the Governor signed, the State budget for Fiscal Year 2011/12. The adopted State budget assumed that revenues would be an additional \$4 billion higher than projected in the May Revision, and contains a "trigger" mechanism pursuant to which certain expenditure reductions will be made without further legislative action in the event that the newly projected revenues are not expected to be realized (as determined by the State Director of Finance). The adopted budget does not contain the tax extensions proposed in the May Revision. On December 13, 2011, the State Director of Finance determined that State revenues had fallen short of targets and implemented the trigger mechanism.

As described above in connection with the adopted State Budget for Fiscal Year 2011/12, the legislation was enacted providing for significant changes to the current funding mechanism for redevelopment agencies. In addition, the adopted State Budget for Fiscal Year 2011/12 would change the allocation of certain property tax VLF funds for local public safety.

Redevelopment Agency Legislation. The adopted State budget for Fiscal Year 2011/12 included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) (“AB X1 26”) and Assembly Bill No. 27 (First Extraordinary Session) (“AB X1 27”), which the Governor signed on June 29, 2011. AB X1 26 provides for the windup and dissolution of redevelopment agencies, such as the Agency, and AB X1 27 provided for an alternative voluntary redevelopment program in lieu of dissolution of the Agency. On July 18, 2011, the California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the “Court”), requesting the Court to review the constitutionality of AB X1 26 and AB X1 27.

On December 29, 2011, the Court issued its opinion, which substantially upheld AB X1 26 and invalidated AB X1 27. As a result of the decision, all California redevelopment agencies, including the Agency, were dissolved as of February 1, 2012.

On an annual basis, the City receives significant revenues from its Redevelopment Agency and from properties owned or formerly owned by the Redevelopment Agency which are affected by the implementation of AB X1 26.

AB1X 26, as modified by the Court’s opinion, suspends various redevelopment agency activities and prohibits redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. As of February 1, 2012, AB X1 26 dissolves all redevelopment agencies in existence and designates “successor agencies.” The City will act as the successor agency to the Agency. Property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will be allocated to various taxing entities in the county and to specified expenses of the dissolved agency. AB X1 26 provides that the successor agencies will administer the redevelopment agencies’ existing “enforceable obligations.” Although, as defined in AB X1 26, “enforceable obligations” include loan agreements and other legally binding and enforceable agreements, AB X1 26 generally provides that following dissolution of an agency, agreements between a redevelopment agency and the city or county that established the agency are not “enforceable obligations.” This could include certain transactions described below between the Redevelopment Agency and the City. However, AB X1 26 provides that certain agreements between a redevelopment agency and the city or county that established the agency will be deemed “enforceable obligations” if certain criteria are met.

AB X1 26 also provides that a successor entity wishing to enter or reenter into agreements with the city or county that formed the redevelopment agency it is succeeding may do so upon obtaining the approval of its oversight board.

Impact on City. The Agency’s operating budget for 2011/12 is \$1.482 million, comprised of \$613,460 in salaries and benefits, \$556,569 in materials and supplies and \$311,977 in City overhead. The Agency reimbursed the City for these amounts annually with tax increment funds. Further, the City has budgeted interest income from the advance of these administrative costs of \$194,000 in 2011/12. The Agency is also obligated to reimburse the City for an additional \$110,000 under a lease, and owes the City approximately \$2.3 million for funds loaned by the City to the Agency for economic development activities and operations.

Further, in 2007, the Agency made certain findings that the Convention Center benefited the Agency and determined that the Agency would contribute \$1.6 million annually to the City toward the City’s lease payments on the bonds issued to finance and refinance the construction and expansion of the Convention Center. Under AB X1 26, the City may receive additional property tax revenues to offset some of the

expenses of the former Agency and other payments that the City would expect to receive from the Agency.

As noted above, the funding of the Agency's budget, interest and other payments to the City and City reimbursements are subject to reduction or elimination based on the ultimate interpretations of the terms of AB X1 26. The City expects to assert that the payments to be received by it pursuant to loans and other arrangements with the Agency should be treated as "enforceable obligations," but if this treatment is not upheld, the City would lose in future fiscal years the related principal and interest payments and other reimbursements. There can be no assurances that AB X1 26 will not interfere with the receipt by the City from the Agency of the amounts contemplated to be received by it. No Agency monies or payments received by the City from the Agency are pledged to the Bonds. The City believes that the potential impact on the availability of Agency funds under AB X1 26 will not materially adversely affect the City's ability to make Lease Payments when due.

Governor's Proposed 2012/13 Budget. On January 5, 2012 Governor Brown announced his proposed budget for Fiscal Year 2012/13 (the "Proposed 2012/13 Budget") which includes a total of \$10.3 billion in cuts and revenues to balance the budget and creates a \$1.1 billion reserve. The Proposed 2012/13 Budget assumes a budget deficit of approximately \$9.2 billion and that voters will pass the Governor's ballot measure proposed for the November 2012 election to raise taxes by approximately \$7 billion. The ballot measure proposes an income tax increase of up to 2% on high-income earners for five years and a temporary one-half cent sales tax increase. If passed, this measure will provide new revenues to schools and constitutionally protect the 2011 realignment funds for local public safety, as well as generating an estimated \$6.9 billion through Fiscal Year 2012/13. After accounting for the increased Proposition 98 minimum guarantee, the measure would provide \$4.4 billion in net benefit to the General Fund budget and prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the budget. The proposed ballot measure would also provide some constitutional protection for the funds dedicated in 2011 to counties and local law enforcement to fund the realignment of various State responsibilities to the local level. Should the voters reject the tax measure in November, the Proposed 2012/13 Budget provides for an additional \$5.4 billion in trigger cuts that would affect K-12 schools (in the amount of approximately \$4.8 billion), higher education, courts, fire protection and a variety of parks services.

Items in the Proposed 2012/13 Budget affecting California cities include the following areas:

Public Safety. The Proposed 2012/13 Budget maintains state subvention grants for law enforcement, including funding COPS (the office of the U.S. Department of Justice that advances the practice of community policing in state and local enforcement agencies), booking fee subventions, and county sheriffs programs. However, there are no additional allocations in the Proposed 2012/13 Budget for frontline law enforcement to mitigate impacts of public safety realignment. In addition, the Proposed 2012/13 Budget provides for partial restoration of the Department of Justice Division of Law Enforcement programs, through the creation of the California Bureau of Special Investigations, however this action is subject to significant cuts in the event the Governor's ballot measure does not pass in November of 2012. If those trigger cuts are engaged, there would also be a 10% reduction to CalFire State response capabilities that would include reductions to the air response program and fire station closures.

Realignment. While the 2011 Public Safety Realignment is proceeding as planned in the 2011/12 State Budget, several modifications have been made in the Proposed 2012/13 Budget including a change between counties and the Division of Juvenile Justice which would begin on January 1, 2013 when the Division of Juvenile Justice will no longer accept new juvenile inmates. Instead, counties will assume juvenile inmate supervision duties and would receive \$10 million in planning grants for Fiscal Year 2012/13. The 2011 trigger cuts imposed on county juvenile inmate contracts with the Division of Juvenile Justice, which dramatically increased the cost for counties, will be suspended and likely eliminated to provide additional resources for the new population to remain under county supervision.

Corrections. The Proposed 2012/13 Budget includes additional grants for State Senate Bill 678 programs to counties, awarded to agencies that maintain custody over felony probationers rather than returning them to prison; increases alternative custody options for low-risk female offenders with prior serious or violent offenses, such as GPS monitoring with savings through reduced housing costs transferred to fund treatment programs for this population; continued conversion and repurposing of existing facilities from female to male inmate facilities, and ongoing study in need for youth to adult facility conversion.

Economic Development. The Proposed 2012/13 Budget proposes the introduction of legislation to reform the enterprise zone program and legislation to move to a mandatory single sales factor for apportioning multistate business income. In addition, the Proposed 2012/13 Budget would apply \$4.1 million in General Fund money to further the work of the Governor's Office of Business and Economic Development.

Employee Relations. The Proposed 2012/13 Budget would implement a surcharge on employers to fund unemployment insurance interest payments for loans received from the Federal Unemployment Account to pay unemployment insurance benefits and would account for the increases in employee wages that have occurred since the requirements were last adjusted in 1992. In addition, the Proposed 2012/13 Budget would decrease the Governor's discretionary Workforce Investment Act funding, which reflects a 10% reduction in federal discretionary funding and would increase the Labor and Workforce Development Fund by \$2.3 million to expand education and outreach efforts.

Transportation. The Proposed 2012/13 Budget continues the use of "weight fees" to offset State transportation-related debt service costs, providing State general fund relief totaling \$349.5 million. In addition, under the Gas Tax Swap implemented in 2010 (which provides for the gasoline excise tax to be adjusted each year to keep the Gas Tax Swap revenue neutral), the actual Fiscal Year 2012/13 rate will be set by the State Board of Equalization prior to March 1, 2012.

Environment. If the Governor's ballot measure is not approved in November of 2012, the trigger cuts would include a 20% reduction in flood control programs (including floodplain mapping and risk awareness programs and a reduction of all seasonal lifeguards) and elimination of 20% of park rangers. However, the core functions by the Department of Fish and Game would be retained, including permitting and data collection and monitoring activities of sensitive endangered species. In addition, the Proposed 2012/13 Budget includes a framework to invest proceeds from Cap and Trade fees to reduce greenhouse gases consistent with State Assembly Bill 32 and includes funding for local government programs including the following: funding to reduce emissions through energy efficiency, clean and renewable distributed energy generation, including local public buildings; funding to reduce emissions through the development of state-of-the-art systems to move goods and freight, deploy advanced technology vehicles and vehicle infrastructure, advanced biofuels and low-carbon and efficient public transportation; funding to reduce emissions associated with water use and supply, land and natural resource conservation and management, and sustainable agriculture; and funding to reduce emissions through strategic planning and development of major infrastructure including transportation and housing.

Restructuring and Reorganizing State Government. The Proposed 2012/13 Budget includes a comprehensive package of reorganizations and eliminations of two state agencies, 39 state entities and nine programs. Of particular interest to cities are the following restructuring proposals: transfers of the Department of Resources, Recycling and Recovery ("CalRecycle") back to the California Environmental Protection Agency; reducing the number of Regional Water Boards from nine to eight as well as reducing the number of members on the boards from nine to seven; eliminating the State Geology and Mining Board and transfer its responsibilities to various existing offices. As it relates to transportation agencies, the Proposed 2012/13 Budget consolidates CalTrans, Department of Motor Vehicles ("DMV"), the High Speed Rail Authority, the Highway Patrol, the California Transportation Commission and the Board of Pilot Commissioners into a newly created Transportation Agency; and eliminates the Office of Traffic Safety, which distributes federal grants to State, county, city and other entities, and would transfer duties to the DMV. In addition, a new agency will include the departments of Consumer Affairs, Housing and

Community Development, Fair Employment and Housing, Alcoholic Beverage Control, and the new restructured Department of Business Oversight. The California Emergency Management Agency and California Technology Agencies would be under the newly created Government Operations Agency and the California Highway Patrol would be moved under the newly created Transportation Agency. Also, various behavioral health programs would be consolidated, including Parolee Service Network, formerly under the Department Mental Health and Department of Alcohol and Drug Programs, to the Department of Health Care Services and the DMV would be moved to the State Transportation Agency. The Fair Employment and Housing Agency would be moved under a newly created Business and Consumer Services Agency; the Public Employees' Retirement System would moved to become under the newly created Government Operation Agency; the Fair Employment and Housing Commission would be eliminated and its functions transferred to the Department of Fair Employment and Housing.

LAO Overview of Proposed 2012/13 Budget. The LAO's "2012/13 Budget: Overview of the Governor's Budget," released on January 11, 2012 (the "2012/13 LAO Report"), recognizes that the Governor's proposed tax initiative is the cornerstone of the Proposed 2012/13 Budget which includes proposals to restructure education finance, reduce social services and child care programs substantially, and implement trigger cuts--primarily affecting schools--if voters do not approve the tax measure. The 2012/13 LAO Report also recognizes that the Governor's plan would continue the difficult task of restoring the State budget to balance, but the difficulty in knowing how much taxable income will be attributable to high-income Californians makes the State's revenue estimates a bigger question than usual. With regard to the Governor's major proposals, the LAO believes that the Governor's education restructuring proposals would institute lasting improvements to the system, and that, while his social services and child care proposals have merit, they involve considerable drawbacks as well, given potentially severe impacts on affected families. Moreover, the 2012/13 LAO Report states that while the Governor's tax initiative would improve the financial outlook of public education over the next several years, his trigger plan would create significant uncertainty for educational institutions in their planning for Fiscal Year 2012/13. This uncertainty is likely to be particularly problematic for schools, as most will feel compelled to build their Fiscal Year 2012/13 budgets assuming the trigger cuts will be implemented. This means schools in Fiscal Year 2012/13 likely will implement most, if not all, of the reductions that many hope to avoid. Given this, the LAO believes the State Legislature should be very deliberate in structuring a workable trigger package and designing tools to help public agencies respond to potential trigger cuts. In particular, the LAO recommends that the State Legislature be cautious in setting the size of the trigger reduction; determining the specific reductions to impose; and designing tools to public agencies respond to the trigger cuts.

Information relating to the Governor's Proposed Budget is available at the State Department of Finance website at <http://www.ebudget.ca.gov>. The Governor's Proposed Budget begins a lengthy process of negotiation with the State legislature, and the adopted State Budget for Fiscal Year 2012/13 could differ significantly from the Governor's Proposed Budget.

Ongoing State Budget Risks. The State's financial difficulties may affect the amount and timing of payments to or for the benefit of cities of funds provided by the State. From time to time, some of the State's budget solutions may increase the financial stress of cities and other local governments because they (1) decrease local revenues (particularly the property tax, road improvement funding, public safety or other categorical funded initiatives) or (2) directly or indirectly increase demand for local programs (such as public safety or indigent health programs). There can be no assurances that the State's financial difficulties will not materially adversely affect the financial condition of the City.

The financial condition of the State is subject to a number of other risks in the future, including particularly potential significant increases in required state contributions to the Public Employees' Retirement System, increased financial obligations related to other post-employment benefits, and increased debt service.

As noted above, the State is facing significant financial stress. There can be no assurances that, as a result of the current or any future State financial stress, the State will not significantly reduce or delay revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. Aside from AB X1 26 described above no new proposals to reduce or delay material sources of revenues to cities were included in the adopted Fiscal Year 2011/12 Budget. However, in Fiscal Years 2008/09 and 2009/10 the State either deferred payments or issued IOU's which could not immediately be cashed. No prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. The City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the City's finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

Limited Recourse on Default

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration of any Lease Payments which have not come due and payable in accordance with the Lease Agreement. The City will continue to be liable for Lease Payments as they become due and payable in accordance with the Lease Agreement if the Trustee does not terminate the Lease Agreement, and 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 cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest. In addition, the enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time-consuming.

The Lease Agreement permits the Trustee to take possession of and re-lease the Leased Property in the event of a default by the City under the Lease Agreement. Even if the Trustee could readily re-lease the Leased Property, the rents may not be sufficient to enable it to pay principal of and interest on the Bonds in full when due.

Constitutional Limitation on Taxes and Expenditures

State Initiative Measures Generally. Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Voters have exercised this power through the adoption of Proposition 13 ("Article XIII A") and similar measures, the most recent of which were approved as Propositions 22 and 26 in the general election held on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Lease Agreement.

Article XIII A. Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "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” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data. Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances. There may also be declines in valuations if the California Consumer Price Index is negative.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms “purchase” and “change of ownership,” for purposes of determining full cash value of property under Article XIII A, to not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence’s assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to the reappraisal of assessed value. Proposition 193 amended Article XIII A so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first \$1,000,000 of other property without a re-appraisal of assessed value.

Because the Revenue and Taxation Code does not distinguish between positive and negative changes in the California Consumer Price Index used for purposes of the inflation factor, there was a decrease of 0.237% in 2009/10 – applied to the 2010/11 tax roll – reflecting the actual change in the California Consumer Price Index, as reported by the State Department of Finance. For each fiscal year since Article XIII A has become effective (the 1978/79 Fiscal Year), the annual increase for inflation has been at least 2% except in seven fiscal years as shown below:

| <u>Tax Roll</u> | <u>Percentage</u> |
|-----------------|-------------------|
| 1981/82 | 1.000% |
| 1995/96 | 1.190 |
| 1996/97 | 1.110 |
| 1998/99 | 1.853 |
| 2004/05 | 1.867 |
| 2010/11 | (0.237) |
| 2011/12 | 0.753 |

Proposition 8 Adjustments. Proposition 8, approved in 1978, provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The City has seen significant Proposition 8 reductions in property values since 2009. See “FINANCIAL INFORMATION - Taxable Property and Assessed Valuation” herein.

Article XIII B. On November 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The “base year” for establishing such appropriations limit is the 1978/79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, 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, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of State and local appropriations limits. Proposition 111 made several changes to Article XIII B. First, the term “change in the cost of living” was redefined as the change in the California per capita personal income (“CPCPI”) for the preceding year. Previously, the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986/87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded appropriations for “qualified capital outlay for fiscal 1990/91 as defined by the legislature” from proceeds of taxes.

Section 7910 of the Government Code requires the City to adopt a formal appropriations limit for each fiscal year. The City’s appropriations limit for 2011/12 is \$121,848,911. The City’s appropriations subject to the limit for 2011/12 are \$59,889,536. Based on this, the appropriations limit is not expected to have any impact on the ability of the City to continue to budget and appropriate the Lease Payments as required by the Lease Agreement.

Proposition 62. Proposition 62 was a statutory initiative adopted in the November 1986 general election. Proposition 62 added Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or district may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior written approval, the amount thereof must be withheld from the levying entity’s allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. Proposition 62 was generally upheld in *Santa Clara County Local Transportation Authority v. Guardino*, a California Supreme Court decision filed September 28, 1995.

Proposition 218. On November 5, 1996, California voters approved Proposition 218 – Voter Approval for Local Government Taxes – Limitation on Fees, Assessments, and Charges – Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No

local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIII D. Proposition 218 added voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

Proposition 218 provides that, effective July 1, 1997, fees that are charged "as an incident of property ownership" may not "exceed the funds required to provide the property related services" and may only be charged for services that are "immediately available to the owner of the property."

The City does not expect the application of Proposition 218 will have a material adverse impact on its ability to pay Lease Payments.

Voter-Approved Taxes. Palm Springs levies a utility users tax. The utility users tax was first levied pursuant to an ordinance of the City Council adopted in July 1986. On November 3, 2009, by majority, voters ratified the tax and approved amendments to the City's Utility User Tax ordinance, which modernized the definitions of the Telephone User Tax portion to include, among other things, VoIP, IP-TV, text messaging, paging, and private communication services. The amendment reduced the rate for telecommunication and video services subject to the tax from 5% to 4.5%. The tax rate for electricity and gas services is unaffected and remains at 5%. The utility user tax represents approximately 10% of Palm Springs's General Fund revenues. The voters also approved an access line tax in lieu of an emergency response fee. This tax is used to fund operation of the City's 911 Communication System.

The City levies a transient occupancy tax on hotel and motel bills. In November 2001, voters in the City approved an increase of the tax which raised the tax rate for group meeting hotels from 10.8% to 12.5%, and the tax rate for all other hotels from 10% to 11.5%. In November 2003, voters in the City approved an additional increase of the tax rate for group meeting hotels, which is currently 13.5%.

There is no time limit established for the collection of the utility users tax or the transient occupancy tax.

On November 8, 2011, voters approved, by majority vote, an additional 1% sales tax to be levied and collected on behalf of the City. This additional sales tax is expected to generate approximately \$9 million annually. The tax will be levied and collected for 25 years.

Proposition 1A. Proposition 1A ("Proposition 1A"), proposed by the Legislature in connection with the 2004/05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004/05 and 2005/06. Proposition 1A provides 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 prohibits 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 must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008/09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any ten-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

For Fiscal Year 2009/10, \$2,077,105 of the City's property tax revenues were diverted to the State as a result of a Proposition 1A suspension. The City participated in a Proposition 1A Securitization Program (the "Program") sponsored by the California Statewide Communities Development Authority. The Program allowed the City to exchange its anticipated State property tax receivable for cash.

Proposition 1A also provides that if the State reduces the vehicle license fee ("VLF") rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22. On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 26. On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the 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. The City does not expect the provisions of Proposition 26 to materially impede its ability to pay Lease Payments when due.

Future Initiatives. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and appropriations.

Early Redemption Risk

Early payment of the Lease Payments and early redemption of the Bonds may occur in whole or in part without premium, on any date if the Leased Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance, without a premium (see "THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds"), if the City exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease Agreement and the Indenture.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS - Tax Exemption" herein, 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 Authority in violation of their covenants contained in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the redemption provisions contained in the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Lease Agreement, the Site Lease, or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the City, the rights of the Owners could be modified at the direction of the court. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture, the Lease Agreement, the Site Lease and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel, will render an opinion which states that the Lease Agreement represents a valid and binding obligation of the Authority and the City, enforceable against the Authority and the City, as applicable, in accordance with its terms except as limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights, by equitable principles, by the exercise of judicial discretion and by limitations on legal remedies against municipalities in the State. See "APPENDIX D" hereto for the proposed form of Bond Counsel's opinion.

The Authority and the City have no knowledge of any fact or other information which would indicate that the Indenture, the Lease Agreement, the Site Lease or the Bonds are not so enforceable against the Authority and the City, as applicable, except to the extent such enforcement is limited by principles of equity, by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel and by Woodruff, Spradlin & Smart, Orange, California, as City Attorney. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Tax Exemption

Federal Tax Status. 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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. The opinions described in the preceding sentence are subject to the condition that the City and 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 in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City and the Authority have covenanted to comply with each such requirement. 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.

Tax Treatment of Original Issue Discount and Premium. 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 each 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 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 straightline 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 of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Bonds sold with an original issue premium, 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.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Other Tax Considerations. 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.

Proposed Form of Tax Opinion. A copy of the proposed form of opinion of Bond Counsel is included as “APPENDIX D.”

Absence of Litigation

The Authority will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, the Site Lease, the Lease Agreement or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture, the Site Lease and the Lease Agreement are to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

Rating on the Bonds

Standard & Poor's has assigned their rating of “_” to the Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds were sold to _____, (the “Underwriter”). The Underwriter is offering the Bonds at the prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has purchased the Bonds at a price equal to \$ _____, which amount represents the principal amount of the Bonds, plus a net original issue premium of \$ _____, and less an Underwriter's discount of \$ _____. The Underwriter will pay certain of its expenses relating to the offering.

The Financial Advisor

The material contained in this Official Statement was prepared by the Authority with the assistance of the Financial Advisor who advised the Authority and the City as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the City has been obtained by the Authority from sources which are believed to be reliable, but such information is not guaranteed by the Authority or the Financial Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Financial Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The City will covenant to provide annually certain financial information and operating data by not later than February 15 each year commencing February 15, 2013 and to provide the audited General Purpose Financial Statements of the City for the fiscal year ending June 30, 2012 and for each subsequent fiscal year when they are available (together, the “Annual Report”), and to provide notices of the occurrence of certain other enumerated events if deemed by the City to be material. The Annual Report will be filed by the City on the Electronic Municipal Market Access Website (“EMMA”) operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). The notices of material events will be timely filed by the City with the Municipal Securities Rulemaking Board and the State repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are set forth in “APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City has never failed to comply, in all material respects, with its undertaking, to provide continuing disclosure under the Federal Securities laws.

Additional Information

The summaries and references contained herein with respect to the Indenture, the Site Lease, the Lease Agreement, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the Indenture, the Site Lease and the Lease Agreement may be obtained after delivery of the Bonds from the City at 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Bonds.

Execution

The execution of this Official Statement by the Executive Director of the Authority and the City Manager has been duly authorized by the City of Palm Springs Financing Authority and by the City of Palm Springs, respectively.

CITY OF PALM SPRINGS FINANCING AUTHORITY

By: _____
Executive Director

CITY OF PALM SPRINGS

By: _____
City Manager

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
[to be provided by Bond Counsel]

APPENDIX B
CITY AUDITED FINANCIAL STATEMENTS

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF PALM SPRINGS (the “City”) in connection with the issuance of \$ _____ City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2012, by and between The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and the City of Palm Springs Financing Authority (the “Indenture”). The City covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Beneficial Owners and bondholders in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth 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*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Dissemination Agent*” shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository system located at www.emma.msrb.org for documents filed with the MSRB pursuant to the Rule, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“*Participating Underwriter*” shall mean _____, _____, or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Repository*” shall mean each National Repository and each State Repository, if any.

“Rule” shall mean 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.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report to MSRB.* The City shall, or shall cause the Dissemination Agent to, not later than February 15 in each year, commencing with the report for the 2011/2012 Fiscal Year, which is due not later than February 15, 2013 and to file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is unable to provide an Annual Report by the date required in subsection (a), the Dissemination Agent (if other than the City) or the City shall send a notice to EMMA in substantially the form attached as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, 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 for the preceding fiscal year, prepared in accordance with the laws of the State and including all statements and information prescribed for inclusion therein by the Controller of the State. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements 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 included in the audited final statement of the City, the Annual Report shall also include the following information, insofar as available from public records:

- (i) Table No. 17 - General Fund Balance Sheet; and

(ii) Table No. 18 - General Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

(c) 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.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements or information (as set forth herein), in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Determination of Materiality of Listed Events.* Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) *Notice to Dissemination Agent.* If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(e) *Notice of Listed Events.* The City shall file, or cause the Dissemination Agent to file, a notice of the occurrence of a Listed Event, (only if material, when applicable) with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Certificate holders of affected Bonds.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 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.

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The initial Dissemination Agent shall be the City. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent, if not the City, shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be

protected in acting or refraining from acting upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 the type of business conducted;

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Certificate holders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Certificate holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate holders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article VIII of the Indenture insofar as they relate to the Trustee shall apply to the Dissemination Agent in this Disclosure Certificate. 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, and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to the Disclosure Certificate or arising out of or in the exercise of 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 of 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 owner of a Certificate, or any other party. The Trustee shall have no liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Certificate. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Certificate. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written direction from the City or an opinion of nationally recognized bond counsel. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent or the Trustee and payment of the Bonds.

Section 13. 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.

Date: _____, 2012

CITY OF PALM SPRINGS

By: _____
Its: Finance Director and Treasurer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Palm Springs Financing Authority
Name of Issue: \$_____ City of Palm Springs Financing Authority
Lease Revenue Bonds, 2012 Series B
(Downtown Revitalization Project)

Date of Issuance: _____, 2012

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate dated _____, 2012, furnished by the City in connection with the Issue. The City anticipates that the Annual Report will be filed by _____.

Date: _____

CITY OF PALM SPRINGS, as Dissemination Agent

By: _____
Authorized Officer

APPENDIX D
FORM OF BOND COUNSEL'S OPINION
[to be provided by Bond Counsel]

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, fiscal agent or paying agent 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 Bonds (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. *The information contained on these Internet sites 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 and distributions 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.

TO BE RECORDED AND WHEN RECORDED
RETURN TO:

JONES HALL
650 California Street, 18th Floor
San Francisco, California 94108
Attention: Andrew C Hall Jr., Esq.

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

SITE AND FACILITIES LEASE

Dated as of April 1, 2012

by and between

**THE CITY OF PALM SPRINGS,
as lessor**

and

**CITY OF PALM SPRINGS FINANCING AUTHORITY,
as lessee**

**[\$Bond Amount]
City of Palm Springs Financing Authority
Lease Revenue Bonds, 2012 Series B
(Downtown Revitalization Project)**

SITE AND FACILITIES LEASE

THIS SITE AND FACILITIES LEASE (this "Site Lease"), is dated as of April 1, 2012, is by and between the City of Palm Springs, a municipal corporation and charter city duly organized and existing under the Constitution and laws of the State of California, as lessor (the "City"), and the City of Palm Springs Financing Authority, a joint powers authority duly organized and existing under the laws of the State of California, as lessee (the "Authority").

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers agency duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City") and the Community Redevelopment Agency of the City of Palm Springs (the "Agency"), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements for the City and the Agency;

WHEREAS, the Authority intends to issue its lease revenue bonds (the "Bonds") in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

WHEREAS, for the purpose of providing funds to finance the Project, the Authority has determined to issue the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)";

WHEREAS, the City proposes to lease certain sites and facilities to the Authority (the "Leased Property") pursuant to this Site and Facilities Lease;

WHEREAS, the City and Authority will enter into a Lease Agreement, dated as of April 1, 2012, by and between the Authority, as lessor, and the City, as lessee, pursuant to which the City will lease back the Leased Property from the Authority and will make lease payments (the "Lease Payments") for use and possession of the Leased Property; and

WHEREAS, the Authority will assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under the Lease Agreement, pursuant to an Assignment Agreement, dated as of April 1, 2012, by and between the Authority and the Trustee, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to this Lease Agreement;

WHEREAS, capitalized terms used in this Site Lease and not defined herein shall have the meanings of such terms for purposes of the Lease Agreement and the Indenture;

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

SECTION 1. SITE AND FACILITIES LEASE. 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 shall commence, and the Authority shall become entitled to possession of the Leased Property on the Closing Date. This Site Lease shall end, and the right of the Authority hereunder to possession of the Leased Property shall thereupon cease, on _____ 1, 20__ (unless the term of the Lease Agreement has been extended pursuant to Section 4.2 thereof), or such earlier or later date on which the Lease Payments (as such term is defined in the Lease Agreement) are paid in full or provisions made for such payment.

SECTION 3. RENTAL. The Authority shall pay or cause to be paid to the Trustee, on behalf of the City, as and for advance rental of the Leased Property hereunder, the sum of \$_____, which shall become due and payable upon the execution and delivery hereof, and which amount shall be deposited or transferred by the transferred as set forth in Section 3.02 of the Indenture and Section 3.1 of the Lease Agreement. The Authority and the City hereby find and determine that the amount of such advance rental 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 amounts of rental shall be due and payable by the Authority for the use and occupancy of the Leased Property under this Site Lease.

SECTION 4. LEASE BACK TO CITY. The Authority shall lease the Leased Property back to the City pursuant to the Lease Agreement.

SECTION 5. ASSIGNMENTS AND SUBLEASES. Unless the City shall be in default under the Lease Agreement, 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 Lease Agreement, without the prior written consent of the City.

SECTION 6. 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 7. 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 all right, title and interest of the Authority thereto shall vest thereupon in the City for no additional consideration.

SECTION 8. DEFAULT. In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for thirty (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 Agreement shall be deemed to occur as a result thereof; *provided, however*, that so long as the Lease Agreement remains in effect, the Lease Payments payable by the City under the Lease Agreement shall continue to be paid to the Trustee.

SECTION 9. 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 Agreement and subject only to Permitted Encumbrances (as such term is defined in the Lease Agreement).

SECTION 10. WAIVER OF PERSONAL LIABILITY. All liabilities under this Site Lease on the part of the Authority are solely liabilities of the Authority, 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 11. 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 12. EMINENT DOMAIN. In the event the whole or any part of the Leased Property or any improvements thereon shall be 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 principal components of the lease payments payable under the Lease Agreement and the balance of the award, if any, shall be paid to the City.

SECTION 13. 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 14. 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 and the Authority 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 City: City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, CA 92262
Attention: City Manager

If to the Authority: City of Palm Springs Financing Authority
c/o: City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, CA 92262
Attn: City Manager

If to the Trustee: The Bank of New York Mellon Trust Company, N.A
700 South Flower Street, Suite 500
Los Angeles, California 90017

Attention: Corporate Trust Services

SECTION 15. GOVERNING LAW. This Site Lease shall be construed in accordance with and governed by the Constitution and laws of the State of California.

SECTION 16. BINDING EFFECT. This Site Lease shall inure to the benefit of and shall be binding upon the Authority, the City and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 17. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the provisions contained in this Site Lease 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 Site Lease and such invalidity, illegality or unenforceability shall not affect any other provision of this Site Lease, and this Site Lease shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the City each hereby declares that it would have entered into this Site Lease and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Site Lease may be held illegal, invalid or unenforceable.

SECTION 18. 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 19. 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.

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.

ATTEST:

CITY OF PALM SPRINGS, as Lessor

James Thompson
City Clerk

David H. Ready
City Manager

ATTEST:

CITY OF PALM SPRINGS FINANCING
AUTHORITY, as Lessee

James Thompson
Secretary

David H. Ready
Executive Director

STATE OF CALIFORNIA)
COUNTY OF _____)

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

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)
COUNTY OF _____)

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

WITNESS my hand and official seal.

Signature _____ (Seal)

EXHIBIT A
DESCRIPTION OF THE LEASED PROPERTY

[To Come]

LEASE AGREEMENT

Dated as of April 1, 2012

by and between

**CITY OF PALM SPRINGS FINANCING AUTHORITY,
as lessor**

and the

**CITY OF PALM SPRINGS,
as lessee**

**[\$Bond Amount]
City of Palm Springs Financing Authority
Lease Revenue Bonds, 2012 Series B
(Downtown Revitalization Project)**

TABLE OF CONTENTS

**ARTICLE I
DEFINITIONS AND EXHIBITS**

Section 1.1. Definitions 2
Section 1.2. Exhibits 2

**ARTICLE II
REPRESENTATIONS, COVENANTS AND WARRANTIES**

Section 2.1. Representations, Covenants and Warranties of the City..... 3
Section 2.2. Representations, Covenants and Warranties of Authority..... 3

**ARTICLE III
DEPOSIT OF MONEYS; SUBSTITUTION**

Section 3.1. Deposit of Moneys 4
Section 3.2. Payment of Delivery Costs..... 4
Section 3.2. Payment of Delivery Costs..... 4
Section 3.3. Substitution of Project..... 4
Section 3.4. Release of Leased Property 5

**ARTICLE IV
AGREEMENT TO LEASE; TERMINATION OF THIS LEASE
AGREEMENT; LEASE PAYMENTS**

Section 4.1. Lease 6
Section 4.2. Term of Agreement..... 6
Section 4.3. Possession 6
Section 4.4. Lease Payments 6
Section 4.5. Quiet Enjoyment 7
Section 4.6. Title 8
Section 4.7. Additional Payments 8

**ARTICLE V
MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS**

Section 5.1. Maintenance, Utilities, Taxes and Assessments 8
Section 5.2. Modification of Project 9
Section 5.3. Property and Rental Interruption Insurance 9
Section 5.4. Title Insurance 10
Section 5.5. Advances 11
Section 5.6. Installation of City's Equipment..... 11
Section 5.7. Liens 11
Section 5.8. Removal of Property From Lease..... 11
Section 5.9. Private Activity Certificate Limitation..... 11
Section 5.10. Federal Guarantee Prohibition..... 12
Section 5.11. Rebate Requirement..... 12
Section 5.12. No Arbitrage..... 12
Section 5.13. Maintenance of Tax-Exemption..... 12
Section 5.14. Continuing Disclosure..... 12

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

Section 6.1. Eminent Domain 12

| | | |
|--------------|--|----|
| Section 6.2. | Application of Net Proceeds | 12 |
| Section 6.3. | Abatement of Rental in the Event of Damage or Destruction..... | 13 |

**ARTICLE VII
DISCLAIMER OF WARRANTIES; ACCESS**

| | | |
|--------------|---|----|
| Section 7.1. | Disclaimer of Warranties | 14 |
| Section 7.2. | Access to the Project..... | 14 |
| Section 7.3. | Release and Indemnification Covenants | 14 |

**ARTICLE VIII
ASSIGNMENT, SUBLEASING AND AMENDMENT**

| | | |
|--------------|---|----|
| Section 8.1. | Assignment by the Authority | 14 |
| Section 8.2. | Assignment and Subleasing by the City | 14 |
| Section 8.3. | Amendment of Lease Agreement..... | 15 |

**ARTICLE IX
EVENTS OF DEFAULT AND REMEDIES**

| | | |
|--------------|--|----|
| Section 9.1. | Events of Default Defined | 15 |
| Section 9.2. | Remedies on Default | 16 |
| Section 9.3. | No Remedy Exclusive..... | 17 |
| Section 9.4. | Agreement to Pay Attorneys' Fees and Expenses | 17 |
| Section 9.5. | No Additional Waiver Implied by One Waiver..... | 17 |
| Section 9.6. | Application of Proceeds | 17 |
| Section 9.7. | Trustee and Certificate Owners to Exercise Rights..... | 18 |

**ARTICLE X
PREPAYMENT OF LEASE PAYMENTS**

| | | |
|---------------|--|-------------------------------------|
| Section 10.1. | Security Deposit..... | 18 |
| Section 10.2. | Purchase Option | Error! Bookmark not defined. |
| Section 10.3. | Mandatory Prepayment From Proceeds of Insurance and Eminent Domain | 19 |
| Section 10.4. | Credit for Amounts on Deposit | 19 |

**ARTICLE XI
MISCELLANEOUS**

| | | |
|---------------|---|----|
| Section 11.1. | Notices | 19 |
| Section 11.2. | Binding Effect..... | 20 |
| Section 11.3. | Severability | 20 |
| Section 11.4. | Net-net-net Lease | 20 |
| Section 11.5. | Further Assurances and Corrective Instruments | 20 |
| Section 11.6. | Execution in Counterparts | 20 |
| Section 11.7. | Applicable Law..... | 20 |
| Section 11.8. | Authority and City Representatives..... | 20 |
| Section 11.9. | Captions..... | 21 |

EXHIBIT A –DESCRIPTION PROJECT LANDS
EXHIBIT B – SCHEDULE OF LEASE PAYMENTS

LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease Agreement" or "Lease"), dated as of April 1, 2012, is by and between the CITY OF PALM SPRINGS FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California, as lessor (the "Authority"), and the CITY OF PALM SPRINGS, a municipal corporation and charter city duly organized and existing under the Constitution and laws of said State, as lessee (the "City").

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers agency duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City") and the Community Redevelopment Agency of the City of Palm Springs (the "Agency"), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements for the City and the Agency;

WHEREAS, the Authority intends to issue its lease revenue bonds (the "Bonds") in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

WHEREAS, for the purpose of providing funds to finance the Project, the Authority has determined to issue the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)";

WHEREAS, the City will lease certain sites and facilities to the Authority (the "Leased Property") pursuant to a Site and Facilities Lease, dated April 1, 2012, by and between the City, as lessor, and the Authority as lessee;

WHEREAS, the City and Authority propose to enter into this Lease Agreement pursuant to which the City will lease back the Leased Property from the Authority and will make lease payments (the "Lease Payments") for use and possession of the Leased Property; and

WHEREAS, the Authority will assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under this Lease Agreement, pursuant to an Assignment Agreement, dated as of April 1, 2012, by and between the Authority and the Trustee, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to this Lease Agreement;

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

ARTICLE I

DEFINITIONS AND EXHIBITS

SECTION 1.1. DEFINITIONS. All capitalized terms used in this Lease Agreement shall have the respective meanings given such terms in the Indenture. In addition, unless the context otherwise requires, the terms defined in this Section 1.1 shall for all purposes of this Lease Agreement have the meanings herein specified.

"*Indenture*" means the Indenture of Trust, dated as of April 1, 2012, by and between the Trustee and the Authority, together with any amendments thereto, providing for the issuance of the Bonds.

"*Lease Payment Date*" means the fifteenth (15th) day of ____ and _____ in each year during the Term of this Lease Agreement, commencing _____ 15, 2012.

"*Permitted Encumbrances*" means, as of any particular time: (a) liens for general ad valorem taxes and for assessments, if any, not then delinquent or which the City may, pursuant to provisions of Article V hereof, permit to remain unpaid; (b) the Assignment Agreement; (c) the Site Lease; (d) this Lease Agreement; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, or leases which exist of record as of the Closing Date; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Closing Date and which the City determines will not materially impair or impede the use of the Leased Property.

"*Proceeds*", when used with respect to the Bonds, means the face amount of the Bonds, plus original issue premium, if any, and less original issue discount, if any.

"*Rental Period*" means each twelve-month period during the Term of this Lease Agreement commencing on _____ 2 in any year and ending on _____ 1 in the next succeeding year; except that the first Rental Period during the Term of this Lease Agreement shall commence on the Closing Date and end on _____ 1, 2013.

"*Site Lease*" means the Site and Facilities Lease, dated as of April 1, 2012, and recorded concurrently herewith, by and between the Authority and the City, together with any amendments thereto.

"*Site Lease Payment*" means the amount which is payable by the Authority to the City on the Closing Date as advance rental for the Leased Property pursuant to Section 3 of the Site Lease.

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

SECTION 1.2. EXHIBITS. The following Exhibits are attached to, and by reference made a part of, this Lease Agreement:

Exhibit A: Description of Leased Property.

Exhibit B: Schedule of Lease Payments.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1. REPRESENTATIONS, COVENANTS AND WARRANTIES OF THE CITY. The City represents, covenants and warrants to the Authority as follows:

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

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

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

(d) Execution and Delivery. The City has duly authorized, executed and delivered this Lease Agreement in accordance with the laws of the State.

SECTION 2.2. REPRESENTATIONS, COVENANTS AND WARRANTIES OF AUTHORITY. The Authority represents, covenants and warrants to the City as follows:

(a) Due Organization and Existence. The Authority is a joint powers authority organized and existing under and by virtue of the laws of the State; has power to enter into this Lease Agreement, 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 Agreement and sell the same; and has duly authorized the execution and delivery of all of the aforesaid Agreements.

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

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

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

(e) Execution and Delivery. The Authority has duly authorized, executed and delivered this Lease Agreement in accordance with the laws of the State.

ARTICLE III

DEPOSIT OF MONEYS; SUBSTITUTION; RELEASE

SECTION 3.1. DEPOSIT OF MONEYS. On the Closing Date, the Authority shall cause to be deposited with the Trustee the proceeds of sale of the Bonds. Pursuant to Section 3.02 of the Indenture, from the proceeds of sale of the Bonds, (a) the Reserve Requirement shall be deposited by the Trustee in the Reserve Account, (b) a portion of such proceeds shall be deposited by the Trustee in the Costs of Issuance Fund, (c) a portion of such proceeds shall be deposited by the Trustee in the Acquisition and Construction Fund and (d) the remaining amount of Bond proceeds shall be transferred by the Trustee pursuant to the Project Financing Agreement in accordance with the Written Request of the City, the aggregate of the foregoing deposits and transfer being the amount of the advance rental payment by the Authority pursuant to Section 3 of the Site and Facilities Lease.

SECTION 3.2. PAYMENT OF COSTS OF ISSUANCE. Payment of the Costs of Issuance shall be made from the moneys deposited by the Trustee in the Costs of Issuance Fund as provided in Section 3.1 hereof, which shall be disbursed for this purpose in accordance and upon compliance with Section 3.03 of the Indenture.

SECTION 3.3. PAYMENT OF ACQUISITION AND CONSTRUCTION COSTS. Payment of the Acquisition and Construction Costs shall be made from the moneys deposited by the Trustee in the Acquisition and Construction Fund as provided in Section 3.1 hereof, which shall be disbursed for this purpose in accordance and upon compliance with Section 3.04 of the Indenture.

SECTION 3.4. SUBSTITUTION OF LEASED PROPERTY. The City shall have, and is hereby granted, the option at any time and from time to time during the Term of this Lease Agreement to substitute other land and improvements thereon (a "Substitute Property") for all or a portion of the Leased Property (the "Former Property"), provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution:

(a) The Authority shall execute a reconveyance of its leasehold interest in the Former Property to the City;

(b) The City shall execute and record in the Office of the Riverside County Recorder a new Site Lease, conveying to the Authority a leasehold interest in the Substitute Property;

(c) The City shall file with the Authority and the Trustee a certificate of an Authorized Representative of the City setting forth the value of the Substitute Property as determined by the City, which value shall be no less than the proportionate share of the principal component of the Lease Payments attributable to the Former Property (such proportionate share to be determined based upon the value of the Leased Property, as determined by the City, as of the Closing Date), and which shall conclude (or be accompanied by a certificate of an Authorized Representative of the City to the effect) that the remaining useful life of the Substitute Property is at least as long as the lesser of the useful life of the Former Property or the then remaining Term of this Lease Agreement;

(d) The City shall file with the Authority and the Trustee an amended Exhibit A to this Lease Agreement which adds thereto a description of such Substitute Property and deletes therefrom the description of the Former Property and shall cause to be recorded in the office of the Riverside County Recorder a copy of this Lease Agreement containing such amended Exhibit A, or a memorandum of this Lease Agreement reflecting such amendment to Exhibit A;

(e) The City shall certify in writing to the Authority and the Trustee that the Substitute Property serves the purposes of the City, constitutes property that is unencumbered (except for Permitted Encumbrances) and constitutes property which the City is permitted to lease under the laws of the State;

(f) The Substitute Property shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Indenture;

(g) The City shall deliver to the Trustee an opinion of counsel with a favorable national reputation in the field of municipal finance to the effect that the substitution will not adversely affect the exclusion from gross income for purposes of federal income taxation of the interest portion of the Lease Payments received by the Owners; and

(h) The City shall provide, at its own expense, a CLTA title insurance policy naming the Trustee as a named insured, and in the amount of not less than the outstanding aggregate principal component of the Lease Payments attributable to the Substitute Property, insuring the City's leasehold estate in the Substitute Property.

SECTION 3.5. RELEASE OF LEASED PROPERTY. The City may, at any time and from time to time, release any portion of the Leased Property (the "Released Property") from the Site Lease and this Lease Agreement upon satisfaction of all of the following requirements which are conditions precedent to such release:

(a) The City must certify to the Authority and the Trustee that no event of default has occurred and is continuing under and as defined in this Lease Agreement;

(b) The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Riverside County Recorder an amendment to the Site Lease and this Lease Agreement which removes the Released Property from the Site Lease and this Lease Agreement; and

(c) The City must file with the Authority and the Trustee a certificate of an Authorized Representative of the City confirming that the value of the Leased Property as determined by the City which will remain leased under the Lease Agreement

following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to the Lease Agreement following such release is at least equal to the Lease Payments thereafter coming due and payable under this Lease Agreement.

Upon the satisfaction of all such conditions precedent, the term of the Site Lease and this Lease Agreement 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.

ARTICLE IV

AGREEMENT TO LEASE AGREEMENT; TERMINATION OF THIS LEASE AGREEMENT; LEASE PAYMENTS

SECTION 4.1. LEASE AGREEMENT. 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 Agreement.

SECTION 4.2. TERM OF AGREEMENT. The Term of this Lease Agreement shall commence on the Closing Date, and shall end on _____ 1, 20__, unless such term is extended as hereinafter provided. If on _____ 1, 20__, the Indenture shall not be discharged by its terms, or if the Lease Payments payable hereunder shall have been abated at any time and for any reason, then the Term of this Lease Agreement shall be extended until the Indenture shall be discharged by its terms. If prior to _____ 1, 20__, the Indenture shall be discharged by its terms, the Term of this Lease Agreement shall thereupon end.

SECTION 4.3. POSSESSION. The City agrees to take possession of the Leased Property hereunder on the Closing Date, and the first Lease Payment shall be payable on _____ 15, 2012. The City and the Authority hereby acknowledge and agree that the City will have full use and enjoyment of the Leased Property as of the Closing Date such that the Lease Payments are not subject to any abatement as of the Closing Date.

SECTION 4.4. LEASE PAYMENTS.

(a) Obligation to Pay. Subject to the provisions of Articles VI and X, the City agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Leased Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in Exhibit B, to be due and payable on the respective dates specified in Exhibit B, and to be deposited with the Trustee on the Lease Payment Date immediately preceding each such date. Any amount held in the Bond Fund on any Lease Payment Date (other than (i) amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to Article X, (ii) amounts required for payment of past due principal or interest represented by any Bonds not presented for payment and (iii) amounts on deposit in the Reserve Account) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Bond Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments payable in any Rental Period shall be for the use of the Leased Property for such Rental Period.

(b) Effect of Prepayment. In the event that the City prepays all remaining Lease Payments in full pursuant to Article X, the City's obligations under this Lease Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Lease Payments under this Section 4.4; subject however, to the provisions of Section 10.1 in the case of prepayment by application of a security deposit. In the event that the City prepays the Lease Payments in part but not in whole pursuant to (i) Section 10.2, the principal components of the remaining Lease Payments shall be reduced in such manner as the City shall determine, or (ii) Section 10.3, the principal components of the remaining Lease Payments shall be reduced in such manner as the City may determine, in each case in integral multiples of \$5,000, and, in each case the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed pursuant to Section 4.01 of the Trust Agreement.

(c) Rate on Overdue Payments. In the event the City should fail to make any of the payments required in this Section 4.4, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate of twelve percent (12%) per annum. Such interest, as and if received, shall be deposited in the Bond Fund.

(d) Fair Rental Value. The Lease Payments for each Rental Period shall constitute the total rental for the Leased Property for each Rental Period, and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making such determination, consideration has been given to the appraised value of the Leased Property, other obligations of the parties under this Lease Agreement, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

(e) Budget and Appropriation. Lease Payments shall be payable from any source of available moneys of the City, subject to the provisions of Articles VI and X hereof.

The City covenants to take such action as may be necessary to include all Lease Payments due hereunder in each of its budgets during the Term of this Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the City.

(f) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to 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 the Corporate Trust Office of the Trustee, all payments payable by the City pursuant to this Section 4.4 and all amounts payable by the City pursuant to Article X.

SECTION 4.5. QUIET ENJOYMENT. During the Term of this Lease Agreement, the Authority shall provide the City with quiet use and enjoyment of the Leased Property, and the

City shall during such Term 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 Agreement. 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 shall have the right to inspect the Leased Property as provided in Section 7.2.

SECTION 4.6. TITLE. During the Term of this Lease Agreement, the Authority shall hold a leasehold interest in the Leased Property and any and all additions which comprise fixtures, repairs, replacements or modifications to the Leased Property, except for those fixtures, repairs, replacements or modifications which are added to the Leased Property by the City at its own expense and which may be removed without damaging the Leased Property and except for any items added to the Leased Property by the City pursuant to Section 5.6.

If the City prepays the Lease Payments in full pursuant to Article X or makes the security deposit permitted by Section 10.1, or pays all Lease Payments during the Term of this Lease Agreement as the same become due and payable, all right, title and interest of the Authority in and to the Leased Property shall be transferred to and vested in the City. The Authority agrees to 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.

SECTION 4.7. ADDITIONAL PAYMENTS. In addition to the Lease Payments, as additional rent hereunder, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation, fees and expenses and any other amounts due to the Trustee under the Indenture, any payments due to the federal government by reason of Section 5.11 of this Lease Agreement and all costs and expenses of auditors, engineers and accountants.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

SECTION 5.1. MAINTENANCE, UTILITIES, TAXES AND ASSESSMENTS. Throughout the Term of this Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property, as hereinbefore more specifically set forth. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of this Lease Agreement.

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

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in the opinion of Independent Counsel, 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 shall, at its own expense, have the right to remodel all or a portion of the Leased Property or to make additions, modifications and improvements to the Leased Property. All additions and modifications to the Leased Property, but not any additional buildings or improvements, shall thereafter comprise part of the Leased Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto pursuant to this Section, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to this Section; provided that if any such lien is established and the City shall first notify or cause to be notified the 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; PROPERTY AND RENTAL INTERRUPTION INSURANCE. The City shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, standard comprehensive general insurance coverage in protection of the City and the Authority, including their respective members, officers, agents and employees. Said coverage 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 use of the Leased Property. Said coverage shall provide for such liability limits and be subject to such deductibles as the City shall deem adequate and prudent. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

The City shall maintain, or cause to be maintained throughout the Term of the Lease Agreement, insurance against loss or damage to any part of the Leased Property by fire and

lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake insurance if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination shall be final and conclusive. Such insurance shall be in an amount equal to the lesser of (a) one hundred percent (100%) of the replacement cost of the Leased Property, or (b) the aggregate principal amount of the Outstanding Bonds. Such insurance may be subject to such deductibles as the City deems prudent. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose, provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be applied as provided in Section 6.2 hereof.

The City shall maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Leased Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the preceding paragraph, in an amount at least equal to the Lease Payments due in the next twenty-four months. Such insurance may be maintained as part of or in conjunction with any other coverage insurance carried by the City and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose, provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Bond Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Each policy or other evidence of insurance required by this Section shall provide that all proceeds thereunder shall be payable to the Trustee and applied as provided in Section 6.2 hereof. The City shall have the adequacy of any insurance reserves relating to self-insurance reviewed periodically by an independent insurance consultant and shall maintain reserves in accordance with the recommendations of such consultant. On or before July 1 of each year, the City shall certify to the Trustee that all policies of insurance and any statements of self-insurance are in conformance with the requirements of this Lease Agreement and the Trustee shall be entitled to rely on such certification without independent investigation. The City shall pay or cause to be paid when due the premiums for all insurance required by this Lease Agreement. All policies or other evidence of insurance shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency or adequacy of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

SECTION 5.4. TITLE INSURANCE. The Authority shall provide effective as of the Closing Date and shall deliver as soon as available following the Closing Date, a CLTA title insurance policy or policies naming the Trustee as a named insured, and in an aggregate amount of not less than the aggregate original principal amount of the Bonds, insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances. All Net Proceeds received under any of said policies shall be applied as provided in Section 6.2.

SECTION 5.5. ADVANCES. If the City shall fail to perform any of its obligations under this Article the Authority may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City shall be obligated to repay all such advances as soon as possible, with interest at the rate of twelve percent (12%) per annum from the date of the advance to the date of repayment.

SECTION 5.6. INSTALLATION OF CITY'S EQUIPMENT. The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to this Section under a lease agreement or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

SECTION 5.7. LIENS. The City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Authority and the City as herein provided and other than Permitted Encumbrances. Except as expressly provided in this Article, the City shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

SECTION 5.8. REMOVAL OF PROPERTY FROM LEASE AGREEMENT. The City shall have, and is hereby granted, the option at any time and from time to time during the Term of this Lease Agreement to remove from this Lease Agreement any land and improvements constituting a portion of the Leased Property; provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such removal:

- (a) The City shall file with the Authority and the Trustee an amended Exhibit A to this Lease Agreement which deletes the legal description of such land;
- (b) The City shall cause to be recorded in the office of the Riverside County Recorder a copy of this Lease Agreement containing such amended Exhibit A, or a memorandum of this Lease Agreement reflecting such amendment to Exhibit A; and
- (c) The City shall file with the Authority and the Trustee an appraisal by a qualified independent MAI appraiser selected by the City in its sole discretion, stating that the appraised value of the Leased Property, excluding such land and any improvements thereon, at least equals the original aggregate principal amount of the Bonds.

SECTION 5.9. PRIVATE ACTIVITY BOND LIMITATION. The City shall assure that the proceeds of the Bonds are not so used as to 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.

SECTION 5.10. FEDERAL GUARANTEE PROHIBITION. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

SECTION 5.11. REBATE REQUIREMENT. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

SECTION 5.12. NO ARBITRAGE. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds 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 of the Tax Code.

SECTION 5.13. MAINTENANCE OF TAX-EXEMPTION. The City shall take all actions necessary to assure the exclusion of interest with respect to 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.

SECTION 5.14. CONTINUING DISCLOSURE. The City hereby covenants and agrees to comply with and carry out all of the provisions of the continuing disclosure certificate (the "Continuing Disclosure Certificate") as originally executed by the City as of April 1, 2012, and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Lease Agreement, failure by the City to comply with the Continuing Disclosure Certificate shall not constitute a default hereunder or under the Indenture; provided, however, that any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such action as may be necessary and appropriate to compel performance by the City of its obligations under this Section 5.14, including seeking mandamus or specific performance by court order.

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS; ABATEMENT

SECTION 6.1. EMINENT DOMAIN. If all of the Leased Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property shall be taken permanently, or if all of the Leased Property or any part thereof shall be taken temporarily, under the power of eminent domain, (a) this Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments hereunder, on a pro rata basis and in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property.

SECTION 6.2. APPLICATION OF NET PROCEEDS. The Net Proceeds of any eminent domain award resulting from any event described in Section 6.1 hereof shall be paid by the City

to the Trustee, as assignee of the Authority under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund and applied as set forth in Section 5.07 of the Indenture.

The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Leased Property by fire or other casualty shall be paid by the City to the Trustee, as assignee of the Authority under the Assignment Agreement, deposited in the Insurance and Condemnation Fund held by the Trustee and applied as set forth in Section 5.07 of the Indenture.

The Net Proceeds of any title insurance award shall be paid to the Trustee, as assignee of the Authority under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in Section 5.07 of the Indenture.

SECTION 6.3. ABATEMENT OF RENTAL IN THE EVENT OF DAMAGE OR DESTRUCTION.

(a) Lease Payments shall be abated during any period in which, by reason of damage, destruction or other event occurring after the Closing Date (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 (other than any portions of the Leased Property described in Section 5.2 hereof). The extent of such abatement shall be agreed upon by the City and the Authority, so that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged, destroyed or otherwise unavailable for use and occupancy by the City. Such abatement shall continue for the period commencing with such damage, destruction or other event and ending with the substantial completion of the work of repair or reconstruction of the Leased Property or of the regained availability of use and occupancy. In the event of any such damage, destruction or non-availability, this Lease Agreement shall continue in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability.

(b) Notwithstanding the foregoing, there shall be no abatement of Lease Payments under this Section 6.3 by reason of damage, destruction, non-completion or unavailability of all or a portion of the Leased Property to the extent that:

(i) the fair rental value of the portions of the Leased Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the City (giving due consideration to the factors identified in the last sentence of Section 4.4(d)), based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid principal component of the Lease Payments; or

(ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Reserve Account and/or the Insurance and Condemnation Fund and/or the Bond Fund are available to pay Lease Payments which would otherwise be abated under this Section 6.3, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

The City and the Authority hereby acknowledge that, as of the Closing Date, the fair rental value of the Leased Property is in excess of the original principal component of the Lease Payments.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS

SECTION 7.1. **DISCLAIMER OF WARRANTIES.** THE AUTHORITY AND ITS SUCCESSORS OR ASSIGNS MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PROPERTY, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY. IN NO EVENT SHALL THE AUTHORITY BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, IN CONNECTION WITH OR ARISING OUT OF THIS LEASE AGREEMENT, THE ACQUISITION AGREEMENT OR THE INDENTURE FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR CITY'S USE OF THE LEASED PROPERTY.

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

SECTION 7.3. **RELEASE AND INDEMNIFICATION COVENANTS.** The City shall and hereby agrees to indemnify and save the Authority and its officers, agents, successors and assigns harmless from and against all liabilities, claims, losses and damages, including legal fees and expenses, arising out of (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 Agreement, (c) any act or negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property, or (d) any act or negligence of any sublessee of the City with respect to the Leased Property. No indemnification is made under this Section or elsewhere in this Lease Agreement for willful misconduct, negligence, or breach of duty under this Lease Agreement by the Authority, its officers, agents, employees, successors or assigns.

ARTICLE VIII

ASSIGNMENT, SUBLEASING AND AMENDMENT

SECTION 8.1. **ASSIGNMENT BY THE AUTHORITY.** The Authority's rights under this Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under this Lease Agreement, have been assigned to the Trustee pursuant to the Assignment Agreement, to which assignment the City hereby consents.

SECTION 8.2. **ASSIGNMENT AND SUBLEASING BY THE CITY.** This Lease Agreement may not be assigned by the City. The City may further sublease the Leased Property or any portion thereof, but only with the written consent of the Authority and subject to all of the following conditions:

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

(b) The City shall, within thirty (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 shall cause the Leased Property to be used for a purpose other than as may be authorized under the provisions of the laws of the State; and

(d) The City shall furnish the Authority and the Trustee with a written opinion of Bond Counsel stating that such sublease does not cause the interest component of the Lease Payments to become subject to federal income taxes or State of California personal income taxes.

SECTION 8.3. AMENDMENT OF LEASE AGREEMENT. Without the prior written consent of the Trustee, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel this Lease Agreement.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

SECTION 9.1. EVENTS OF DEFAULT DEFINED. The following shall be "events of default" under this Lease Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this Lease Agreement, any one or more of the following events:

(a) Failure by the City to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein, and the continuation of such failure for a period of ten (10) days.

(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 clause (a) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the City of a voluntary petition in bankruptcy, 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 Act, as amended, or under any similar acts which may hereafter be enacted.

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

(a) In the event the Authority does not elect to terminate this Lease Agreement in the manner hereinafter provided for in subparagraph (b) hereof, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Authority is unable to re-Lease Agreement the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the 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 Agreement the Leased Property in the event of default by the City in the performance of any covenants herein contained to be performed by the City and to remove all personal property whatsoever situated upon the Leased Property to place such property in storage or other suitable place in the County of Riverside, 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 such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Property as herein provided and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Property. The City agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease Agreement, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of this Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Agreement shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City further

waives the right to any rental obtained by the 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) In an event of default hereunder, the Authority at its option may terminate this Lease Agreement and re-lease all or any portion of the Leased Property. In the event of the termination of this Lease Agreement by the Authority 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. Any surplus received by the Authority from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease Agreement. The City covenants and agrees that no surrender of the Leased Property and/or of the remainder of the Term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

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

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

SECTION 9.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

SECTION 9.6. APPLICATION OF PROCEEDS. All net proceeds received from the re-lease or other disposition of the Leased Property under this Article IX, and all other amounts derived by the Authority or the Trustee as a result of an event of default hereunder, shall be used by the Trustee in the manner required by Section 7.03 of the Indenture.

SECTION 9.7. TRUSTEE AND BOND OWNERS TO EXERCISE RIGHTS. Such rights and remedies as are given to the Authority under this Article IX have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

ARTICLE X

PREPAYMENT OF LEASE PAYMENTS

SECTION 10.1. SECURITY DEPOSIT. Notwithstanding any other provision of this Lease Agreement, the City may on any date secure the payment of all or a portion of the Lease Payments remaining due by a deposit with the Trustee, in trust, as referenced in Article X of the Indenture, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) an amount which, together with amounts on deposit in the Bond Fund, the Insurance and Condemnation Fund and the Reserve Account, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Exhibit B through maturity or an earlier purchase date established pursuant to Section 10.2 below, or (ii) cash or Federal Securities, together with cash, if required, in such amount as will, in the opinion of an Independent Accountant, together with interest to accrue thereon, be fully sufficient to pay all unpaid Lease Payments on their respective Interest Payment Dates through maturity or an earlier purchase date established pursuant to Section 10.2 below; or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by an Authorized Representative of the City designating the portion of the Lease Payments to which the deposit pertains, and either (i) an amount which is sufficient to pay the portion of the Lease Payments designated in such Authorized Representative's certificate, including the principal and interest components thereof, or (ii) cash or Federal Securities, together with cash, if required, in such amount as will, together with interest to be received thereon, if any, in the opinion of an Independent Accountant, be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid Authorized Representative's certificate.

In the event of a deposit pursuant to this Section 10.1 as to all Lease Payments, all obligations of the City under this Lease Agreement shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all payments from the deposit made by the City pursuant to this Section 10.1, and title to the Leased Property shall vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments provided for by this Section 10.1 and said obligation shall thereafter be deemed to be and shall constitute the installment purchase obligation of the City for the Leased Property. Upon said deposit, the Authority will execute or cause to be executed any and all documents as may be necessary to confirm title to the Leased Property in accordance with the provisions hereof. In addition, the Authority hereby appoints the City as its agent to prepare, execute and file or record, in appropriate offices, such documents as may be necessary to place record title to the Leased Property in the City.

SECTION 10.2. PREPAYMENT OPTION. The Authority hereby grants an option to the City to prepay the principal component of the Lease Payments in full, by paying the stipulated value of the Leased Property set forth in Exhibit B hereto (the aggregate of the unpaid principal payments together with interest thereon to the date of redemption of the Bonds), on any date on or after _____ 15, 20____, without prepayment penalty.

Said option may be exercised with respect to Lease Payments due after _____ 15, 20__, in whole or in part on any date, commencing _____ 15, 20__. Said option shall be exercised by the City by giving written notice to the Authority and the Trustee of the exercise of such option at least sixty (60) days prior to said Lease Payment Date (unless the Authority and the Trustee consent to a shorter period of time for notice of the exercise of such option). Such option shall be exercised in the event of prepayment in full, by depositing on or before such Lease Payment Date cash in an amount, which, together with amounts then on deposit in the Reserve Account, the Insurance and Condemnation Fund and the Bond Fund, will be sufficient to pay the stipulated value of the Leased Property on said Lease Payment Date as set forth in Exhibit B hereto, together with any Lease Payments then due but unpaid, or, in the event of prepayment in part, by depositing with said notice an amount divisible by \$5,000 equal to the amount desired to be prepaid (but not less than \$5,000) together with any Lease Payments then due but unpaid. In the event of prepayment in part, the partial prepayment shall be applied against Lease Payments in such manner as the City shall determine and if the City shall fail to make such determination, pro rata among their payment dates. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in Exhibit B attached hereto taking into account said partial prepayment.

SECTION 10.3. MANDATORY PREPAYMENT FROM PROCEEDS OF INSURANCE AND EMINENT DOMAIN. The City shall be obligated to prepay the Lease Payments, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance or condemnation award with respect to the Leased Property deposited in the Bond Fund for such purpose pursuant to Article VI hereof and Section 4.01(b) and 5.07 of the Indenture. The City and the Authority hereby agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, shall be credited towards the City's obligations under this Section 10.3. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in Exhibit B attached hereto taking into account said partial prepayment.

SECTION 10.4. CREDIT FOR AMOUNTS ON DEPOSIT. In the event of prepayment of the principal components of the Lease Payments in full under this Article X, such that the Indenture shall be discharged by its terms as a result of such prepayment, all amounts then on deposit in the Bond Fund or the Reserve Account shall be credited towards the amounts then required to be so prepaid.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. NOTICES. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received forty-eight (48) hours after deposit in the United States first class mail with postage fully prepaid or by facsimile transmission:

If to the City: City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, CA 92262
Attention: City Manager

If to the Authority: City of Palm Springs Financing Authority
c/o: City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, CA 92262
Attn: City Manager

If to the Trustee: The Bank of New York Mellon Trust Company, N.A
700 South Flower Street, Suite 500
Los Angeles, California 90017
Attention: Corporate Trust Services

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

SECTION 11.2. BINDING EFFECT. This Lease Agreement shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns.

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

SECTION 11.4. NET-NET-NET LEASE AGREEMENT. This Lease Agreement shall be deemed and construed to be a "net-net-net Lease Agreement" and the City hereby agrees that the Lease Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

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

SECTION 11.6. EXECUTION IN COUNTERPARTS. This Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 11.7. APPLICABLE LAW. This Lease Agreement shall be governed by and construed in accordance with the laws of the State.

SECTION 11.8. AUTHORITY AND CITY REPRESENTATIVES. Whenever under the provisions of this Lease Agreement 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 by an Authorized Representative of the Authority and for the City by an Authorized Representative of the City, and any party hereto shall be authorized to rely upon any such approval or request.

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

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

ATTEST:

CITY OF PALM SPRINGS FINANCING
AUTHORITY, as Lessor

James Thompson
Secretary

David H. Ready
Executive Director

ATTEST:

CITY OF PALM SPRINGS, as Lessee

James Thompson
City Clerk

David H. Ready
City Manager

30012-15:J1230

EXHIBIT A

DESCRIPTION OF LEASED PROPERTY

Those parcels of land in the City of Palm Springs, County of Riverside, State of California, described as follows, together with all improvements, facilities or other property situated thereon:

[To Come]

EXHIBIT B

SCHEDULE OF LEASE PAYMENTS

| Interest Payment Dates ⁽¹⁾ | Principal | Interest | Total Lease Agreement Payment | Stipulated Value ⁽²⁾ |
|---|-----------|----------|-------------------------------------|------------------------------------|
|---|-----------|----------|-------------------------------------|------------------------------------|

[To Come]

- (1) The Lease Payment Date is the 15th day of _____ or the 15th day of _____, as applicable, immediately preceding the relevant Interest Payment Date.
- (2) Stipulated Value is the same with respect to the next succeeding interest payment date.

INDENTURE OF TRUST

Dated as of April 1, 2012

between

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
as Trustee

and the

CITY OF PALM SPRINGS FINANCING AUTHORITY

Authorizing the Issuance of

[\$[Bond Amount]
City of Palm Springs Financing Authority
Lease Revenue Bonds, 2012 Series B
(Downtown Revitalization Project)

TABLE OF CONTENTS

ARTICLE I

Definitions; Rules Of Construction

| | | |
|---------------|----------------------|---|
| Section 1.01. | Definitions..... | 2 |
| Section 1.02. | Authorization..... | 2 |
| Section 1.03. | Interpretation | 2 |

ARTICLE II

The Bonds

| | | |
|---------------|--|---|
| Section 2.01. | Authorization of Bonds..... | 3 |
| Section 2.02. | Terms of the Bonds | 3 |
| Section 2.03. | Transfer and Exchange of Bonds | 4 |
| Section 2.04. | Book-Entry System | 5 |
| Section 2.05. | Registration Books..... | 6 |
| Section 2.06. | Form and Execution of Bonds..... | 6 |
| Section 2.07. | Bonds Mutilated, Lost, Destroyed or Stolen | 7 |

ARTICLE III

Issuance of Bonds; Application of Proceeds

| | | |
|---------------|--|---|
| Section 3.01. | Issuance of the Bonds | 8 |
| Section 3.02. | Application of Proceeds of Sale of Bonds | 8 |
| Section 3.03. | Establishment and Application of Costs of Issuance Fund..... | 8 |
| Section 3.04. | Validity of Bonds | 8 |
| Section 3.04. | Validity of Bonds | 9 |

ARTICLE IV

Redemption of Bonds

| | | |
|---------------|--|----|
| Section 4.01. | Terms of Redemption | 9 |
| Section 4.02. | Selection of Bonds for Redemption..... | 11 |
| Section 4.03. | Notice of Redemption | 11 |
| Section 4.04. | Partial Redemption of Bonds | 11 |
| Section 4.05. | Effect of Redemption | 11 |

ARTICLE V

Revenues; Funds and Accounts; Payment of Principal and Interest

| | | |
|---------------|---|----|
| Section 5.01. | Security for the Bonds; Bond Fund | 12 |
| Section 5.02. | Allocation of Revenues | 13 |
| Section 5.03. | Application of Interest Account | 13 |
| Section 5.04. | Application of Principal Account..... | 13 |
| Section 5.05. | Application of Reserve Account..... | 13 |
| Section 5.06. | Establishment and Application of Redemption Fund..... | 14 |
| Section 5.07. | Insurance and Condemnation Fund | 14 |
| Section 5.08. | Investments | 16 |
| Section 5.09. | Valuation and Disposition of Investments | 17 |

ARTICLE VI

Covenants of the Authority

| | | |
|---------------|------------------------------------|----|
| Section 6.01. | Punctual Payment..... | 18 |
| Section 6.02. | Extension of Payment of Bonds..... | 18 |

| | | |
|---------------|--|----|
| Section 6.03. | Against Encumbrances..... | 18 |
| Section 6.04. | Power to Issue Bonds and Make Pledge and Assignment..... | 18 |
| Section 6.05. | Accounting Records..... | 18 |
| Section 6.06. | Limitation on Additional Obligations..... | 19 |
| Section 6.07. | Tax Covenants..... | 19 |
| Section 6.08. | Enforcement of Lease..... | 19 |
| Section 6.09. | Waiver of Laws..... | 19 |
| Section 6.10. | Further Assurances..... | 20 |

ARTICLE VII

Events of Default and Remedies

| | | |
|---------------|--|----|
| Section 7.01. | Events of Default..... | 20 |
| Section 7.02. | Remedies Upon Event of Default..... | 20 |
| Section 7.03. | Application of Revenues and Other Funds After Default..... | 21 |
| Section 7.04. | Trustee to Represent Bond Owners..... | 22 |
| Section 7.05. | Limitation on Bond Owners' Right to Sue..... | 22 |
| Section 7.06. | Absolute Obligation of Authority..... | 22 |
| Section 7.07. | Termination of Proceedings..... | 23 |
| Section 7.08. | Remedies Not Exclusive..... | 23 |
| Section 7.09. | No Waiver of Default..... | 23 |
| Section 7.10. | Notice to the Bond Owners of Default..... | 23 |

ARTICLE VIII

The Trustee

| | | |
|---------------|---|----|
| Section 8.01. | Appointment of Trustee..... | 23 |
| Section 8.02. | Acceptance of Trusts; Removal and Resignation of Trustee..... | 23 |
| Section 8.03. | Merger or Consolidation..... | 25 |
| Section 8.04. | Liability of Trustee..... | 26 |
| Section 8.05. | Right to Rely on Documents..... | 28 |
| Section 8.06. | Preservation and Inspection of Documents..... | 28 |
| Section 8.07. | Compensation and Indemnification..... | 29 |

ARTICLE IX

Modification or Amendment Hereof

| | | |
|---------------|---|----|
| Section 9.01. | Amendments Permitted..... | 30 |
| Section 9.02. | Effect of Supplemental Indenture..... | 31 |
| Section 9.03. | Endorsement of Bonds; Preparation of New Bonds..... | 31 |
| Section 9.04. | Amendment of Particular Bonds..... | 32 |

ARTICLE X

Defeasance

| | | |
|----------------|--|----|
| Section 10.01. | Discharge of Indenture..... | 32 |
| Section 10.02. | Discharge of Liability on Bonds..... | 32 |
| Section 10.03. | Deposit of Money or Securities with Trustee..... | 33 |
| Section 10.04. | Unclaimed Funds..... | 33 |

ARTICLE XI

Miscellaneous

| | | |
|----------------|--|----|
| Section 11.01. | Liability of Authority Limited to Revenues..... | 34 |
| Section 11.02. | Limitation of Rights to Parties and Bond Owners..... | 34 |
| Section 11.03. | Funds and Accounts..... | 34 |
| Section 11.04. | Waiver of Notice; Requirement of Mailed Notice..... | 34 |

| | | |
|----------------|--|----|
| Section 11.05. | Destruction of Bonds | 35 |
| Section 11.06. | Severability of Invalid Provisions..... | 35 |
| Section 11.07. | Notices | 35 |
| Section 11.08. | Evidence of Rights of Bond Owners | 35 |
| Section 11.09. | Disqualified Bonds | 36 |
| Section 11.10. | Money Held for Particular Bonds | 36 |
| Section 11.11. | Waiver of Personal Liability..... | 36 |
| Section 11.13. | Successor Is Deemed Included in All References to Predecessor..... | 36 |
| Section 11.14. | Execution in Several Counterparts..... | 37 |
| Section 11.15. | Payment on Non-Business Day | 37 |
| Section 11.16. | Governing Law..... | 37 |

| | |
|------------|-------------|
| APPENDIX A | DEFINITIONS |
| APPENDIX B | BOND FORM |

INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated as of April 1, 2012, is between the CITY OF PALM SPRINGS FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Los Angeles, California, being qualified to accept and administer the trusts hereby created (the "Trustee");

WHEREAS, the Authority is a joint exercise of powers agency duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City") and the Community Redevelopment Agency of the City of Palm Springs (the "Agency"), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements for the City and the Agency;

WHEREAS, the Authority intends to issue its lease revenue bonds (the "Bonds") in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

WHEREAS, for the purpose of providing funds to finance the Project, the Authority has determined to issue, sell and deliver, under and pursuant to this Indenture, the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)";

WHEREAS, the City will lease certain sites and facilities to the Authority (the "Leased Property") pursuant to a Site and Facilities Lease, dated as of April 1, 2012, by and between the City, as lessor, and the Authority as lessee;

WHEREAS, the City and Authority will enter into the Lease Agreement, dated as of April 1, 2012 (the "Lease Agreement"), between the Authority, as lessor and the City, as lessee, pursuant to which the City will lease back the Leased Property and will make lease payments (the "Lease Payments") for use and possession of the Leased Property;

WHEREAS, the Authority will assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under the Lease Agreement, pursuant to an Assignment Agreement, dated as of April 1, 2012, by and between the Authority and the Trustee, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to the Lease Agreement;

WHEREAS, 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; and

WHEREAS; 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.

AGREEMENT:

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 \$[Bond Amount] under the Bond Law for the purposes of providing 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 the “City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project).”

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 June 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:

| <u>Maturity Date</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|---|-----------------------------------|--------------------------------|
|---|-----------------------------------|--------------------------------|

[To Come]

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 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 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 have 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 have 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 Chair of the Authority 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.

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.* Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall apply the net proceeds of sale thereof in the amount of \$ _____, 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 Reserve Account, being the amount of the Reserve Requirement;
- (c) The Trustee shall deposit the amount of \$ _____ into the Acquisition and Construction Fund; and
- (d) The Trustee shall transfer the amount of \$ _____, constituting the remainder of such net proceeds, in accordance with the Written Request of the City pursuant to the Project Financing Agreement.

The Trustee may establish and maintain a temporary account to facilitate and record such deposits and transfer.

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(a). 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. Each such Written Requisition of the Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On June 1, 2012, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Acquisition and Construction Fund, and shall thereupon close the Costs of Issuance Fund.

SECTION 3.04. *Establishment and Application of Acquisition and Construction Fund.* (a) The Trustee shall establish a special fund designated as the "Acquisition and Construction Fund"; shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as provided herein. In addition to the amounts deposited in the Acquisition and Construction Fund pursuant to Section 3.02(c),

there may be deposited in the Acquisition and Construction Fund any additional funds from time to time deposited with the Trustee for the purpose of financing the Project and identified in writing to the Trustee.

(b) Amounts in the Acquisition and Construction Fund shall be disbursed for Acquisition and Construction Costs. Disbursements from the Acquisition and Construction Fund shall be made by the Trustee upon receipt of Written Request of the City requesting disbursement executed by a Authorized Representative of the City. Each such Written Request shall:

(i) set forth the amounts to be disbursed for payment or reimbursement of previous payments of Acquisition and Construction Costs and the person or persons to whom said amounts are to be disbursed;

(ii) state that such amounts to be disbursed constitute Acquisition and Construction Costs, that such amounts are required to be disbursed pursuant to the Project Financing Agreement or pursuant to a contract entered into therefor by or on behalf of the City, or were necessarily and reasonably incurred, and that said amounts are not being paid in advance of the time, if any, fixed for payment; and

(iii) state that no amount set forth in the Written Request was included in any Written Request requesting disbursement previously filed with the Trustee pursuant to this Section 3.04.

SECTION 3.05. *Validity of Bonds.* The recital contained in the Bonds that the same are issued under the Constitution and 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 June 1, 202_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 202_, are subject to redemption prior to maturity, at the option of the Authority, in whole or in part among maturities on such basis as designated by the Authority and by lot within a maturity, from any available source of funds, on June 1, 202_, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Authority must give the Trustee written notice of its intention to redeem Bonds under this subsection (a), and the manner of selecting such Bonds for redemption from among the maturities thereof and the amount of the redemption premium thereon, in sufficient time to enable the Trustee to give notice of such redemption in accordance with Section 4.03.

(b) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any date, from Net Proceeds required to be used for such purpose as provided in Section 5.07, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

(c) Mandatory Sinking Fund Redemption of Term Bonds. The Term Bonds are also subject to redemption in part by lot, on June 1 in each of the years as set forth in the following table, from deposits made for such purpose under Section 5.02(b), at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased under the succeeding paragraph of this subsection (c), in the aggregate respective principal amounts and on the respective dates as set forth in the following table. If some but not all of the Term Bonds of any maturity have been redeemed under subsections (a) or (b) above, the total amount of all future payments under this subsection (c) with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 as determined by the Authority (written notice of which determination shall be given by the Authority to the Trustee).

Mandatory Sinking Fund Redemption
of Term Bonds Maturing June 1, 20__

| Sinking Fund Redemption Date (<u>June 1</u>) | Principal Amount <u>To Be Redeemed</u> |
|--|---|
|--|---|

[To Come]

Mandatory Sinking Fund Redemption
of Term Bonds Maturing June 1, 20__

| Sinking Fund Redemption Date (<u>June 1</u>) | Principal Amount <u>To Be Redeemed</u> |
|--|---|
|--|---|

[To Come]

In lieu of redemption of the Term Bonds under the preceding paragraph, amounts on deposit in the Bond Fund (to the extent not required to be deposited by the Trustee in the Interest Account or the Principal Account under Section 5.02 during the current Bond Year) may also be used and withdrawn by the Authority at any time for the purchase of such Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of such Term Bonds so purchased by the City in any twelve-month period ending on April 1 in any year will be

credited towards and shall reduce the par amount of such Term Bonds required to be redeemed under this subsection (c) on the next succeeding June 1.

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 of a single maturity, the Trustee shall select the Bonds of that maturity to be redeemed by lot in any manner that the Trustee in its sole discretion deems appropriate. 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 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. In addition, the 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 optional redemption of Bonds by written notice to the Trustee on or prior to the date 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 City 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 Agreement (other than the rights of the Authority under Sections 4.7, 5.07 and 7.3 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 Agreement.

(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 Agreement 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 any Term Bonds which are subject to mandatory sinking fund redemption on such date under Section 4.01(c)..
- (c) Deposit to Reserve Account. The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement; provided that no deposit is required to be made so long as and to the extent that the Reserve Requirement is maintained in the form of a Qualified Reserve Account Credit Instrument.

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

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 or earlier date of mandatory sinking fund redemption under Section 4.01(c).

SECTION 5.05. *Application of Reserve Account.*

(a) Payment of Debt Service. The Trustee shall apply amounts in the Reserve Account solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee shall apply such amounts first, to the payment of interest and second, to the payment of principal. On the date on which all Bonds are retired hereunder or provision is made therefor under Article X, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments.

(b) Qualified Reserve Account Credit Instrument. The City may cause the Trustee to transfer amounts in the Reserve Account to the City by filing with the Trustee (a) an opinion of Bond Counsel stating that such transfer will not cause interest on the Bonds to become includable in gross income for purposes of federal income taxation, and (b) a Qualified Reserve Account Credit Instrument. All amounts so transferred to the City from the Reserve Account shall be applied by the City to finance general fund capital improvements.

The Trustee shall comply with all documentation relating to any Qualified Reserve Account Credit Instrument as required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as required to receive payments thereunder if and to the extent required to make any payment when and as required hereunder. Upon the expiration of any Qualified Reserve Account Credit Instrument, the City shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds sufficient to cause the amount on deposit in the Reserve Account to equal to Reserve Requirement, to be derived from any source of legally available funds of the City.

Cash on deposit in the Reserve Account shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Qualified Reserve Account Credit Instrument. If and to the extent that more than one Qualified Reserve Account Credit Instrument is deposited in the Reserve Account, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

SECTION 5.06. *Establishment and Application of Redemption Fund*. If any of the Bonds are called for redemption under Sections 4.01(a) or 4.01(b), the Trustee shall thereupon establish and maintain the Redemption Fund. The Trustee shall deposit in the Redemption Fund an amount required to pay the principal of and the interest and premium (if any) on the Bonds to be redeemed under Sections 4.01(a) or 4.01(b), and amounts in the Redemption Fund shall be used solely for that purpose. However, at any time prior to the selection of Bonds for redemption the Trustee may apply amounts in the Redemption Fund 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 is entitled to conclusively rely on any Written Request of the Authority received under this Section 5.06, and shall be fully protected in relying thereon.

SECTION 5.07. *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) Application of Insurance Proceeds. In accordance with Section 6.2 of the Lease Agreement, any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City in the event of any such accident or

destruction shall be paid to the Trustee for deposit in the Insurance and Condemnation Fund. If the City fails to determine and notify the Trustee in writing of its determination, within 45 days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property which has been damaged or destroyed, then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds under Section 4.01(b). Notwithstanding the foregoing sentence, however, if the Leased Property is damaged or destroyed in full, the Net Proceeds of such insurance must be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to redeem all of the Outstanding Bonds. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of 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 (b) of this Section 5.07 and in each case, shall be fully protected in relying thereon. Each such Written Requisition of the Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(c) Application of Eminent Domain Proceeds. If all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be applied in accordance with Section 6.2 of the Lease Agreement. The City shall cause any such Net Proceeds to be paid to the Trustee for deposit in the Insurance and Condemnation Fund, to be applied and disbursed by the Trustee as follows:

- (i) If the City has not given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Leased Property or such portion thereof, the Trustee shall transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds under Section 4.01(b).
- (ii) If the City has given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Leased Property or such portion thereof, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such replacement, upon the filing of Written Requisitions of the City as agent for the Authority in the form and containing the provisions set forth in subsection (b) of this Section 5.07.

In each case, the Trustee may conclusively rely upon any notice received under this subsection (c)(ii) of this Section 5.07 and is protected in relying thereon.

(d) In making any such determination whether to repair, replace or rehabilitate the Leased Property under this Section 5.07, the City may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee. The Trustee shall have no duty to review or examine such report. Any such determination by the City is final.

SECTION 5.08. *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 under a Written Request of the Authority filed with the Trustee at least 2 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 described in clause (e) of the definition thereof. 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 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 Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund. 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 and the City acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the City the right to receive brokerage confirmations of security transactions as they occur, the Authority and the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the City a periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

SECTION 5.09. *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 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 and investments in the Reserve Account 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 (other than the Reserve Account) are subject to a yield restriction.

(c) Except as provided in the preceding 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 June 1. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it shall be 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, or (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.

(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 any source of legally available funds of the Authority. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of 3 years following the retirement of the Bonds, records of the determinations made under this subsection (e).

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 Agreement. 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 Agreement.

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 Agreement.

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; and

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.

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 Agreement 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 Agreement 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 Authority.* Nothing in this Section 7.06 or in any other provision of this Indenture 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 5 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.* The Bank of New York Mellon Trust Company, N.A. 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 (c), 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 corporation, 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 corporation, or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, federal savings association or corporation, 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 corporation, 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 Agreement (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.

(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 Agreement 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 Agreement, 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 Sections 8.05 and 8.07, and shall be applicable to the assignment of any rights under the Lease Agreement 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 Agreement 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.

(n) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or

rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(o) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

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 shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) 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 Agreement. As security for the performance of the obligations of the Authority under this Section 8.07 and the obligation of the City to pay Additional Rent 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 Agreement.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

SECTION 9.01. *Amendments Permitted.*

(a) Amendments With 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, which 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 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; or
- (v) to comply with the requirements of the provider of a Qualified Reserve Account Credit Instrument.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(c) 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 and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(d) 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 has been given as provided in Article IV or provision satisfactory to the Trustee has 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 has 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, the Additional Rent 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 corporate trust 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 electronic communication, 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 City: City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, California 92262
Attention: City Manager

If to the Trustee: The Bank of New York Mellon Trust Company,
N.A.
700 South Flower Street, Suite 500
Los Angeles, California 90017
Attention: Corporate Trust Services

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; and the Trustee may conclusively rely on such Certificate.

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 CITY OF PALM SPRINGS FINANCING AUTHORITY has caused this Indenture to be signed in its name by its Executive Director and attested to by its Secretary, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., 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.

**CITY OF PALM SPRINGS FINANCING
AUTHORITY**

By _____
Executive Director

Attest:

Secretary

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., *as Trustee***

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

"Acquisition and Construction Costs" means all costs of payment of, or reimbursement for, acquisition, construction, rehabilitation, installation and equipping of the Project, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums, permit fees and other costs related to the financing of the Project pursuant to the Project Financing Agreement.

"Acquisition and Construction Fund" means the fund by that name established pursuant to Section 3.04.

"Additional Rent" means the amounts of additional rental which are payable by the City under Section 4.7 of the Lease Agreement.

"Assignment Agreement" means the Assignment Agreement dated as of April 1, 2012, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended under any duly authorized and executed amendments thereto.

"Authority" means the City of Palm Springs Financing Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of February 1, 1991, by and between the City and the Community Redevelopment Agency of the City of Palm Springs, and under the laws of the State of California.

"Authorized Representative" means: (a) with respect to the Authority, its 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 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 Mayor, 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 Mayor, 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 of Division 2 of Title 5 of the California Government Code, commencing with Section 6584 of said Code, including specifically Section 6595.3 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 June 2 in one calendar year to June 1 of the succeeding calendar year, both dates inclusive; except

that the first Bond Year commences on the Closing Date and extends to and includes June 1, 2012.

“Bonds” means the \$[Bond Amount] aggregate principal amount of City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) authorized by and at any time Outstanding under 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 Palm Springs, a municipal corporation and charter city organized and existing under the laws of the State of California.

“Closing Date” means 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 its 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 "EMMA" or the "Electronic Municipal Market Access" system of the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a 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 June 1 and December 1, commencing December 1, 2012, so long as any Bonds remain unpaid.

"Lease Agreement" means the Lease Agreement dated as of April 1, 2012, 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 15th day of May or the 15th day of November, as applicable, immediately preceding such Interest Payment Date.

"Lease Payments" means the amounts payable by the City under Section 4.4 of the Lease Agreement, 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 Agreement, together with all improvements and facilities at any time situated thereon, consisting generally of the land and improvements consisting of certain library facilities.

"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 Los Angeles, California, or such other or additional offices as the Trustee may designate in writing to the Corporation from time to time as the corporate trust office for purposes of 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 dba Stone & Youngberg, a division of Stifel Nicolaus, as original purchaser of the Bonds upon the issuance thereof 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 Investments" means any of the following:

- (a) Federal Securities;
- (b) (i) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, Federal Housing Administration and Federal Financing Bank. and (ii) direct obligations for any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by Fannie Mae or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation

(REFCORP); and senior debt obligations of the Federal Home Loan Bank System.

- (c) U.S. dollar denominated deposit accounts federal funds and banker's acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;
- (d) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than 270 calendar days after the date of purchase;
- (e) investments in a money market fund, including those of an affiliate of the Trustee, rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;
- (f) 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.
- (g) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund, in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) subject to the approval of S&P, which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of Federal Securities, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the prepayment date or dates specified in the irrevocable instructions referred to above, as appropriate;

- (h) Investment agreements, including guaranteed investment contracts, which, are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, or which are collateralized so as to be is rated in one of the two highest rating categories by Moody's or S&P or which are collateralized so as to be rated in one of the two highest rating categories by Moody's or S&P; and
- (i) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"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 and rehabilitation of parking structures and other public improvements described in the Project Financing Agreement, together with such other public improvements as may be designated from time to time by the City to be financed with moneys in the Acquisition and Construction Fund.

"Project Financing Agreement" means the Project Financing Agreement, dated September 29, 2011, by and between the City of Palm Springs and Palm Springs Promenade, LLC, as such agreement may be hereafter amended.

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to Section 5.05(b), provided that all of the following requirements are met as of the date of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is in the highest two rating categories by Moody's and S&P; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to Section 5.05(b); and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder for the purpose of making transfers from the Reserve Account to the Bond Fund, as provided in Section 5.05(a), in amounts equal to any insufficiencies which may exist from time to time in the Bond Fund in order to provide moneys needed to make the payments required pursuant to 5.02.

"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.

"Redemption Fund" means the fund (if any) 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.

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

“Reserve Requirement” means an amount equal to the lesser of (a) the maximum amount of annual debt service coming due and payable on the Bonds in the current or any future Bond Year, or (b) the maximum amount permitted by the Tax Code.

“Revenues” means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, 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 7.3 of the Lease Agreement, and (ii) any Additional Rent; 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 addresses and/or such other securities depositories as the Authority designates in written notice filed with the Trustee.

“Site Lease” means the Site and Facilities Lease, dated as of April 1, 2012, by and between the City as lessor and the Authority as lessee of the site and facilities constituting the Leased Property, together with any duly authorized and executed amendments thereto.

“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 Agreement, the time during which the Lease Agreement is in effect, as provided in Section 4.2 thereof.

“Term Bonds” means the Bonds maturing on June 1, 20___, and June 1, 20___.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., 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

CITY OF PALM SPRINGS FINANCING AUTHORITY

**2010 REFUNDING LEASE REVENUE BOND
(Downtown Revitalization Project)**

INTEREST RATE: _____% MATURITY DATE: June 1, _____ ORIGINAL ISSUE DATE: April __, 2012 CUSIP:

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: *** ***

The CITY OF PALM SPRINGS FINANCING AUTHORITY, a joint powers authority duly organized and existing 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 15th 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 November 15, 2012, 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 June 1 and December 1 in each year, commencing December 1, 2012 (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 The Bank of New York Mellon Trust Company, N.A., in Los Angeles, California, or such other place as

designated by the Trustee (the "Trust Office"), as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee mailed 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 Palm Springs (the "City"), the County of Riverside, 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 "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) (the "Bonds"), in an aggregate principal amount of \$[Bond Amount], 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 pursuant to the provisions of Article 4 of Chapter 5 of Division 2 of Title 5 of the California Government Code, commencing with Section 6584 of said Code, and under an Indenture of Trust dated as of April 1, 2012, between the Authority and the Trustee (the "Indenture") 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 refinance outstanding obligations 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 Second Amended and Restated Lease Agreement dated as of April 1, 2012, 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.

The Bonds maturing on or before June 1, 202_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 202_, are subject to redemption prior to maturity, at the option of the Authority, in whole or in part among maturities on such basis as designated by the Authority and by lot within a maturity, from any available source of funds, on June 1, 202_, and on any Interest Payment Date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Bonds are subject to redemption as a whole, or in part by lot, on any date, to the extent of any net proceeds of hazard or title insurance with respect to the property which has been leased under the Lease Agreement (the "Leased Property") or any portion thereof which are not used to repair or replace the Leased Property pursuant to the Lease Agreement, or to the extent of any net proceeds arising from the disposition of the Leased Property or any portion thereof in eminent domain proceedings which the City elects to be used for such purpose pursuant to the Lease Agreement, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing June 1, 20__ and June 1, 20__, are designated as "Term Bonds" in the Indenture and are also subject to redemption in part by lot, on ____ 1 in each of the years as set forth in the following table, from deposits made for such purpose under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased under the succeeding paragraph, in the aggregate respective principal amounts and on the respective dates as set forth in the following table. If some but not all of the Term Bonds have been redeemed as described in the two preceding paragraphs above, the total amount of all future payments under this paragraph with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 as determined by the Authority (written notice of which determination shall be given by the Authority to the Trustee).

Mandatory Sinking Fund Redemption
of Term Bonds Maturing June 1, 20__

| Sinking Fund Redemption Date (June 1) | Principal Amount To Be Redeemed |
|---|------------------------------------|
| | \$ |

Mandatory Sinking Fund Redemption
of Term Bonds Maturing June 1, 20__

Sinking Fund
Redemption Date
(June 1)

Principal Amount
To Be Redeemed

\$

In lieu of redemption of the Term Bonds under the preceding paragraph, amounts on deposit in the Bond Fund (to the extent not required to be deposited by the Trustee in the Interest Account or the Principal Account under the Indenture during the current Bond Year) may also be used and withdrawn by the Authority at any time for the purchase of such Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of such Term Bonds so purchased by the Authority in any twelve-month period ending on April 1 in any year will be credited towards and shall reduce the par amount of such Term Bonds required to be redeemed under this subsection (c) on the next succeeding June 1.

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 20 nor 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.

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, a New York corporation ("DTC"), 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 in such other name as is requested by an authorized

representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

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 Ordinance 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 Ordinance 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 City of Palm Springs Financing Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chair and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

**CITY OF PALM SPRINGS FINANCING
AUTHORITY**

By _____
Chair

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION

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

Dated:

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., *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 guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

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.

WHEN RECORDED, RETURN TO:

JONES HALL
650 California Street, 18th Floor
San Francisco, California 94108
Attention: Andrew C Hall Jr., Esq.

THIS TRANSACTION IS EXEMPT FROM DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE AND EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 6103 OF THE CALIFORNIA GOVERNMENT CODE.

ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT, dated as of April 1, 2012, by and between the CITY OF PALM SPRINGS FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee, a national banking association (the "Trustee");

WITNESSETH:

In the joint and mutual exercise of their powers, in consideration of the mutual covenants herein contained, and for other valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto recite and agree as follows:

SECTION 1. RECITALS.

(a) The Authority is a joint exercise of powers agency duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 1, 1991, by and between the City of Palm Springs (the "City") and the Community Redevelopment Agency of the City of Palm Springs (the "Agency"), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements for the City and the Agency;

(b) The Authority intends to issue its lease revenue bonds (the "Bonds") in order to assist the City in connection with the City's downtown revitalization project which consists of the acquisition, construction and rehabilitation of several public capital improvements, including public parking structures and public streets (the Downtown Revitalization Project" or the "Project");

(c) For the purpose of providing funds to finance the Project, the Authority has determined to issue the Bonds designated "City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project)";

(d) The City will lease certain sites and facilities to the Authority (the "Leased Property") pursuant to a Site and Facilities Lease, dated April 1, 2012, by and between the City, as lessor, and the Authority as lessee;

(e) The City and Authority will enter into a Lease Agreement, dated as of April 1, 2012, by and between the Authority, as lessor, and the City, as lessee (the "Lease Agreement"), pursuant to which the City will lease back the Leased Property from the Authority and will make lease payments (the "Lease Payments") for use and possession of the Leased Property;

(f) The Authority proposes to assign to the Trustee its right to receive the Lease Payments, together with certain of its other rights under this Lease Agreement, pursuant to this Assignment Agreement, and the Bonds will be secured by and be payable from the Lease Payments to be paid by the City pursuant to this Lease Agreement; and

(g) Each of the parties has authority to enter into this Assignment Agreement, and has taken all actions necessary to authorize its officers to execute it.

SECTION 2. ASSIGNMENT.

The Authority hereby transfers, assigns and sets over to the Trustee, for the benefit of the Owners of Certificates executed and delivered under the Trust Agreement, all of the Authority's rights (but none of its obligations) under the Lease Agreement (excepting only the Authority's rights under Sections 4.7, 7.3 and 9.4 of the Lease Agreement), including without limitation (a) the right to receive and collect all of the Lease Payments from the City under the Lease Agreement, (b) the right to receive and collect any proceeds of any insurance maintained thereunder, or of any condemnation award rendered with respect to the Leased Property, and (c) the right to exercise such rights and remedies conferred on the Authority pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund established under the Trust Agreement, or (ii) otherwise to protect the interests of the Owners in the event of a default by the City under the Lease Agreement. All rights assigned by the Authority shall be administered by the Trustee in accordance with the provisions of the Trust Agreement and for the equal and proportionate benefit of the Owners of Certificates.

SECTION 3. ACCEPTANCE.

The Trustee hereby accepts the assignments made herein for the purpose of securing, equally and proportionately, the payments due pursuant to the Lease Agreement and Indenture to, and the rights under the Lease Agreement and Indenture of, the Owners of the Bonds delivered pursuant to the Indenture, all subject to the provisions of the Indenture.

SECTION 4. CONDITIONS.

This Assignment Agreement shall confer no rights or impose no duties upon the Trustee beyond those expressly provided in the Lease Agreement and Indenture. The Trustee makes no representation or warranty as to the accuracy of the recitals herein.

SECTION 5. EXECUTION IN COUNTERPARTS.

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

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

ATTEST:

CITY OF PALM SPRINGS FINANCING
AUTHORITY, as Lessor

James Thompson
Secretary

David H. Ready
Executive Director

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.
as Trustee

By: _____

Authorized Officer

STATE OF CALIFORNIA)
COUNTY OF _____)

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

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)
COUNTY OF _____)

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

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)
COUNTY OF _____)

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

WITNESS my hand and official seal.

Signature _____ (Seal)

EXHIBIT A
DESCRIPTION OF LEASED PROPERTY

[To Come]

\$[PAR AMOUNT]
CITY OF PALM SPRINGS FINANCING AUTHORITY
LEASE REVENUE BONDS, 2012 SERIES B
(DOWNTOWN REVITALIZATION PROJECT)

BOND PURCHASE AGREEMENT

_____, 2012

City of Palm Springs Financing Authority
c/of City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, California 92262

City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, California 92262

Ladies and Gentlemen:

The undersigned E. J. De La Rosa & Co., Inc. (the “Underwriter”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (which, together with Exhibit A, is referred to as the “Purchase Agreement”) with the City of Palm Springs Financing Authority (the “Authority”) and the City of Palm Springs, California (the “City”), which, upon the acceptance by the Authority and the City, will be binding upon the Authority, the City and the Underwriter. This offer is made subject to acceptance by the Authority and by the City by the execution of this Purchase Agreement and delivery of the same to the Underwriter prior to 11:59 P.M., Pacific time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the Authority and the City at any time prior to the acceptance hereof by the Authority and the City. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Indenture (defined herein).

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements herein set forth, the Underwriter hereby agrees to purchase from the Authority and the City, and the Authority and the City hereby agree to issue, sell and deliver to the Underwriter all (but not less than all) of the City of Palm Springs Financing Authority Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project) (the “Bonds”) in the aggregate principal amount of \$[PAR AMOUNT]. The Bonds will be dated as of their date of delivery. Interest on the Bonds shall be payable semiannually on June 1 and December 1 in each year (each an “Interest Payment Date”) commencing December 1, 2012 and will bear interest at the rates and on the dates as set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$_____ (which represents the principal amount of the Bonds in the amount of \$[PAR AMOUNT], plus a [net] original issue [premium/discount] in the amount of \$_____, less an Underwriter’s discount of \$_____).

The City and Authority acknowledge and agree that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm's-length commercial transaction among the City, the Authority and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as a Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended), financial advisor or fiduciary; (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City or the Authority with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City or the Authority on other matters); and (iv) the City and the Authority have consulted their own legal, financial and other advisors to the extent they have deemed appropriate.

Section 2. The Bonds. The Bonds shall be secured by revenues consisting primarily of rental payments ("Lease Payments") to be paid by the City pursuant to the Lease Agreement, dated as of April 1, 2012 (the "Lease Agreement"), by and between the Authority and the City. The Authority's right to receive the Lease Payments due under the Lease Agreement and to exercise remedies upon default under such Lease Agreement shall be assigned to the Trustee for the benefit of the owners of the Bonds pursuant to an Assignment Agreement, dated as of April 1, 2012 (the "Assignment Agreement"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee").

The Bonds shall be as described in, and shall be secured under and pursuant to the Indenture of Trust, dated as of April 1, 2012 (the "Indenture"), by and between the Authority and the Trustee.

The proceeds of the Bonds will be applied to: (i) finance the acquisition, construction and rehabilitation of several capital improvements, including parking structures and public streets (the "Project"), (ii) fund a reserve account for the Bonds, and (iii) pay costs of issuance of the Bonds.

Section 3. Public Offering. The Underwriter agrees to make an initial public offering of all 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 they deem necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

Section 4. The Official Statement. By their acceptance of this Purchase Agreement, the Authority and the City ratify, confirm and approve of the use and distribution by the Underwriter prior to the date hereof of the preliminary official statement relating to the Bonds, dated _____, 2012 (including the cover page, all appendices and all information incorporated therein 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") that an authorized officer of the Authority deemed "final" as of its date, for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12") except for certain omissions permitted to be omitted therefrom by Rule 15c2-12. The Authority and the City hereby agree to deliver or cause to be delivered to the Underwriter, within seven (7) business days of the date hereof, copies of the final official statement, dated the date hereof, relating to the Bonds (including all information previously permitted to have been omitted by Rule 15c2-12, the cover page, all appendices, all information incorporated therein and any amendments or supplements

as have been approved by the Authority, the City and the Underwriter (the "Official Statement") in such quantity as the Underwriter shall reasonably request to comply with Securities and Exchange Commission Rule 15c2-12(b)(4) and the rules of the Municipal Securities Rulemaking Board (the "MSRB").

The Underwriter hereby agrees that it will not request that payment be made by any purchaser of the Bonds prior to delivery by the Underwriter to the purchaser of a copy of the Official Statement. The Underwriter agrees to (i) provide the Authority and the City with final pricing information on the Bonds on a timely basis and (ii) promptly file a copy of the final Official Statement, including any supplements prepared by the Authority or the City with the MSRB, which currently can be found at <http://emma.msrb.org>. The Authority and the City hereby approve of the use and distribution by the Underwriter of the final Official Statement in connection with the offer and sale of the Bonds. The Authority and the City will cooperate with the Underwriter in the filing by the Underwriter of the Official Statement with the MSRB.

Section 5. Closing. At 8:00 a.m., California time, on _____, 2012, or at such other time or date as the Authority, the City and the Underwriter agree upon, the Authority shall deliver or cause to be delivered to the Trustee, and the Trustee shall deliver or cause to be delivered through the facilities of The Depository Trust Company, New York New York ("DTC"), the Bonds in definitive form, duly executed and authenticated. Concurrently with the delivery of the Bonds, the Authority and the City shall deliver the documents hereinafter mentioned at the offices of Jones Hall, A Professional Law Corporation, San Francisco, California or another place to be mutually agreed upon by the Authority, the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer in immediately available funds. This payment for and delivery of the Bonds, together with the delivery of the aforementioned documents referenced herein, is called the "Closing."

The Bonds shall be registered in the name of Cede & Co., as nominee of DTC in denominations of five thousand dollars (\$5,000) or any integral multiple thereof, and shall be made available to the Underwriter at least one (1) business day before the Closing for purposes of inspection and packaging. The Authority and the City acknowledge that the services of DTC will be used initially by the Underwriter to permit the issuance of the Bonds in book-entry form, and agree to cooperate fully with the Underwriter in employing such services.

Section 6. Representations, Warranties and Covenants of the Authority. The Authority represents, warrants and covenants to the Underwriter and the City that:

(a) The Authority is and will be at the date of Closing a joint exercise of powers authority organized and existing under the laws of the State of California, including Section 6500 *et seq.* of the California Government Code (the "JPA Act") with all necessary power and authority to enter into and perform its duties under the Site and Facilities Lease, dated as of April 1, 2012 (the "Site Lease"), by and between the City and the Authority, the Lease Agreement, the Indenture, the Assignment Agreement and this Purchase Agreement (collectively, the "Authority Documents").

(b) The Authority has complied with all filing requirements of the JPA Act.

(c) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly approved the distribution of the Preliminary Official Statement and the distribution of the Official Statement (including in electronic form), and has duly

authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained, in the Authority Documents. When executed and delivered, each Authority Document will constitute the legal, valid and binding obligation of the Authority enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally.

(d) Prior to the date hereof, the Authority has provided to the Underwriter for its review the Preliminary Official Statement that an authorized officer of the Authority has deemed final for purposes of Rule 15c2-12, has approved the distribution of the Preliminary Official Statement and the Official Statement and has duly authorized the execution and delivery of the Official Statement (including in electronic form). The Preliminary Official Statement, at the date thereof, did not contain any untrue statement of a material fact or omit to state any material fact relating to the Authority necessary to make the statements therein (other than the information relating to DTC and its book-entry system, as to which no view is expressed), in light of the circumstances under which they were made, not misleading. At the date hereof and on the Closing, the final Official Statement did not and will not contain any untrue statement of a material fact or omit to state any material fact relating to the Authority necessary to make the statements therein (other than the information relating to DTC and its book-entry system, as to which no view is expressed), in light of the circumstances under which they were made, not misleading.

(e) To the knowledge of the undersigned officer of the Authority, the execution and delivery by the Authority of the Authority Documents and the approval and execution by the Authority of the Official Statement and compliance with the provisions on the Authority's part contained in the Authority Documents, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject to, which conflict, breach or default has or may have a material adverse effect on the ability of the Authority to carry out its obligations under the Authority Documents, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any material lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, trust agreement, bond, note, resolution, agreement or other instrument, except as provided by the Authority Documents.

(f) The Authority will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The Authority will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(g) To the knowledge of the undersigned officer of the Authority, the Authority is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, trust agreement, bond, note, resolution, agreement or other instrument to which the Authority is a party or is 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 default or an event of default

under any such instrument, in each case which breach or default has or may have a material adverse effect on the ability of the Authority to perform its obligations under the Authority Documents.

(h) As of the time of acceptance hereof and as of the date of Closing, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the knowledge of the officers of the Authority, threatened (i) in any way questioning the corporate existence of the Authority or the titles of the officers of the Authority to their respective offices, (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Bonds, or in any way contesting or affecting the validity of the Bonds or the Authority Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from gross income for federal income tax purposes or contesting the powers of the Authority to enter into the Authority Documents or (iii) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clause (i) through (iii) of this sentence.

(i) Any certificate signed by any officer of the Authority authorized to execute such certificate in connection with the issuance, sale and delivery of the Bonds and delivered to the Underwriter shall be deemed a representation and warranty of the Authority to the Underwriter and the City as to the statements made therein but not of the person signing such certificate.

Section 7. Representations, Warranties and Covenants of the City. The City represents, warrants and covenants to the Underwriter and the Authority that:

(a) The City is and will be at the date of Closing a charter city and a municipal corporation duly organized and existing pursuant to and under the Constitution and laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Continuing Disclosure Certificate relating to the Bonds (the "Continuing Disclosure Certificate"), the Site Lease, the Lease Agreement and this Purchase Agreement (together, the "City Documents" and, together with the Authority Documents, the "Legal Documents") and has by official action duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents for the purpose of financing the Project.

(b) By official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved the distribution of the Preliminary Official Statement and the distribution of the Official Statement (including in electronic form), and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained, in the City Documents. When executed and delivered, each City Document will constitute the legally valid and binding obligation of the City enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally.

(c) The Preliminary Official Statement heretofore delivered to the Underwriter is hereby deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(i) of Rule 15c2-12.

The Preliminary Official Statement, at the date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein (other than the information relating to DTC and its book-entry system, as to which no view is expressed), in the light of the circumstances under which they were made, not misleading. At the date hereof and on the Closing, the final Official Statement did not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein (other than the information relating to DTC and its book-entry system, as to which no view is expressed), in the light of the circumstances under which they were made, not misleading.

(d) To the knowledge of the undersigned officer of the City, the execution and delivery by the City of the City Documents and the approval by the City of the Official Statement and compliance with the provisions on the City's part contained in the City Documents, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, trust agreement, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject to, which conflict, breach or default has or may have a material adverse effect on the ability of the City to carry out its obligations under the City Documents, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any material lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, trust agreement, bond, note, resolution, agreement or other instrument, except as provided by the City Documents.

(e) The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental Authority prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(f) To the knowledge of the undersigned officer of the City, after reasonable inquiry, the City is not in breach of or default under any applicable law or administrative regulation of the State of California 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 is 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 default or an event of default under any such instrument, in each case which breach or default has or may have a material adverse effect on the ability of the City to perform its obligations under the City Documents.

(g) The financial statements relating to the revenues, expenditures and fund balances of the City as of June 30, 2011 as set forth in the Official Statement fairly represent the revenues, expenditures and fund balances of the General Fund. Except as disclosed in the Preliminary Official Statement, the Official Statement or otherwise disclosed in writing to the Underwriter, there has not been any materially adverse change in the financial condition of the General Fund or in its operations since June 30, 2011 and, except as disclosed in the Preliminary Official Statement, the Official Statement or otherwise disclosed in writing to the Underwriter, there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

(h) As of the time of acceptance hereof and as of the date of Closing, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the knowledge of the officers of the City, threatened (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Bonds, or in any way contesting or affecting the validity of the Bonds or the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from gross income for federal income tax purposes or contesting the power of the City to enter into the City Documents; (iii) which may result in any material adverse change to the financial condition of the City or to its ability to pay the Lease Payments when due; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clause (i) through (iv) of this sentence.

(i) To the extent required by law, the City will undertake, pursuant to the Continuing Disclosure Certificate, to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix C to the Preliminary Official Statement and will also be set forth in the final Official Statement. Except as otherwise disclosed in the Official Statement, the City has never failed to comply in all material respects with any previous undertakings with regard to the Rule 15c2-12 to provide annual reports or notices of material events with respect to the last five years.

(j) Any certificate signed by any officer of the City authorized to execute such certificate in connection with the issuance, sale and delivery of the Bonds and delivered to the Underwriter shall be deemed a representation and warranty of the City to the Underwriter and the Authority as to the statements made therein but not of the person signing such certificate.

(k) As of the date hereof, the City does not have any material obligations secured by payments from the General Fund of the City, except as disclosed in the Official Statement.

Section 8. Conditions to the Obligations of the Underwriter. The Underwriter has entered into this Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein. The obligations of the Underwriter to accept delivery of and pay for the Bonds on the date of the Closing shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the statements of the officers and other officials of the Authority and of the City, as well as authorized representatives of Bond Counsel, the Trustee, Disclosure Counsel and the Financial Advisor made in any Bonds or other documents furnished pursuant to the provisions hereof; to the performance by the Authority and the City of their obligations to be performed hereunder at or prior to the date of the Closing; and to the following additional conditions:

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

(b) At the time of Closing, the Legal Documents shall be in full force and effect as valid and binding agreements between or among 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, and all such reasonable actions as, in the opinion of Bond Counsel, shall reasonably deem necessary in connection with the transactions contemplated hereby shall have occurred;

(c) At the time of the Closing, no default shall have occurred or be existing under the Authority Documents, the City Documents, or any other agreement or document pursuant to which any of the City's financial obligations were executed and delivered, and the City shall not be in default in the payment of principal or interest with respect to any of its financial obligations, which default would adversely impact the ability of the City to make the Lease Payments;

(d) In recognition of the desire of the Authority, the City and the Underwriter to effect a successful public offering of the Bonds, and in view of the potential adverse impact of any of the following events on such a public offering, this Agreement shall be subject to termination in the absolute discretion of the Underwriter by notification, in writing, to the Authority and the City prior to delivery of and payment for the Bonds, if at any time prior to such time, regardless of whether any of the following statements of fact were in existence or known of on the date of this Purchase Agreement:

(i) any event shall occur which makes untrue any statement or results in an omission to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading, which event, in the reasonable opinion of the Underwriter would materially or adversely affect the ability of the Underwriter to market the Bonds; or

(ii) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State of California, or the amendment of legislation pending as of the date of this Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, 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 the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or state court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority affecting the federal or State tax status of the Authority or the City, or the interest on or with respect to bonds or notes (including the Bonds); or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State shall be rendered which materially adversely affects the market price of the Bonds; or

(iv) an order, decree or injunction issued by any court of competent jurisdiction, or order, ruling, regulation (final, temporary or proposed), official statement or other form of notice or communication issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that: (i) obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended; or (ii) the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, to the effect that obligations of the general character of the Bonds, or the Bonds are not exempt from registration under or other requirements of the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any domestic governmental authority or by any domestic national securities exchange, which are material to the marketability of the Bonds; or

(vii) a general banking moratorium shall have been declared by federal, State or New York authorities, or the general suspension of trading on any national securities exchange; or

(viii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is materially adverse such as to make it, in the sole judgment of the Underwriter, impractical to proceed with the purchase or delivery of the Bonds as contemplated by the final Official Statement (exclusive of any amendment or supplement thereto); or

(ix) any rating of the Bonds or the rating of any obligations of the City secured by the City's general fund shall have been downgraded or withdrawn by a national rating service, which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(x) the commencement of any action, suit or proceeding described in Section 6(h) or Section 7(h);

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

(i) all resolutions relating to the Bonds adopted by the Authority and certified by an authorized official of the Authority authorizing the execution and delivery of the Bonds, the Authority Documents and the Official Statement;

(ii) all resolutions relating to the Bonds adopted by the City and certified by an authorized official of the City authorizing the execution and delivery of the City Documents and the delivery of the Bonds and the Official Statement;

(iii) the Legal Documents duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(iv) the approving opinion of Jones Hall, A Professional Law Corporation, Bond Counsel, dated the date of Closing and addressed to the Authority and the City, in substantially the form attached as Appendix D to the Official Statement, and a reliance letter thereon addressed to the Underwriter;

(v) a supplemental opinion of Bond Counsel dated the date of Closing and addressed to the Underwriter and the Financial Advisor, to the effect that:

(A) the statements on the cover of the Official Statement and in the Official Statement under the captions "INTRODUCTION," "THE BONDS," "SOURCES OF PAYMENT FOR THE BONDS," "THE FINANCING PLAN," and "LEGAL MATTERS – Tax Exemption," and in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" and "APPENDIX D – FORM OF BOND COUNSEL'S OPINION," excluding any material that may be treated as included under such captions and appendices by any cross-reference, insofar as such statements expressly summarize provisions of the Bonds, the Site Lease, the Lease Agreement, the Assignment Agreement, the Indenture and Bond Counsel's final opinion concerning certain federal tax matters relating to the Bonds, are accurate in all material respects as of the date of Closing; provided, that Bond Counsel need not express any opinion with respect to any financial or statistical data contained therein or with respect to DTC or the book-entry system in which the Bonds are initially delivered;

(B) The Purchase Agreement has been duly authorized, executed and delivered by the City and the Authority and constitutes a valid, legal and binding agreement of the City and the Authority enforceable in accordance with its terms, except that the rights and obligations under the Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are

sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State, and provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

(C) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(vi) the Official Statement, executed on behalf of the Authority and the City;

(vii) evidence that the Bonds have been rated “___” by Standard & Poor’s;

(viii) a certificate, dated the date of Closing, signed by a duly authorized officer of the Authority satisfactory in form and substance to the Underwriter to the effect that: (i) the representations, warranties and covenants of the Authority contained in this Purchase Agreement are true and correct in all material respects on and as of the date of Closing with the same effect as if made on the date of the Closing by the Authority, and the Authority has complied with all of the terms and conditions of this Purchase Agreement required to be complied with by the Authority at or prior to the date of Closing; (ii) to such officer’s knowledge, no event affecting the Authority has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used or which is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; (iii) the information and statements contained in the Official Statement (other than information relating to DTC and its book-entry system) did not as of its date and do not as of the Closing contain an untrue statement of a material fact or omit to state any material fact relating to the Authority necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; and (iv) to its knowledge, the Authority is not in breach of or default under any applicable law or administrative regulation of the State of California 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 is otherwise subject, which would have a material adverse impact on the Authority’s ability to perform its obligations under the Authority Documents, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument;

(ix) a certificate, dated the date of Closing, signed by a duly authorized officer of the City satisfactory in form and substance to the Underwriter to the effect that: (i) the representations, warranties and covenants of the City contained in this Purchase Agreement are true and correct in all material respects on and as of the date of Closing with the same effect as if made on the date of the Closing by the City, and the City has complied with all of the terms and conditions of the Purchase Agreement required to be complied with by the City at or prior to the date of Closing; (ii) to such officer’s knowledge, no event affecting the City has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the

purposes for which it is to be used or which is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; (iii) the information and statements contained in the Official Statement (other than information relating to DTC and its book-entry system) did not as of its date and do not as of the Closing contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; (iv) to its knowledge after reasonable investigation, the City is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including but not limited to the Lease Agreement) or other instrument to which the City is a party or is otherwise subject, which would have a material adverse impact on the City's ability to perform its obligations under the City Documents, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument; and (v) no further consent is required for inclusion of its audited financial statements in the Official Statement;

(x) an opinion dated the date of Closing and addressed to the Underwriter, the Trustee, and the Financial Advisor and Bond Counsel, of the Office of the City Attorney of the City of Palm Springs, as Counsel to the Authority, to the effect that:

(A) the Authority is a joint exercise of powers authority organized and existing under the laws of the State of California;

(B) the resolution of the Authority approving and authorizing the execution and delivery of the Authority Documents, the Bonds and the Official Statement and other actions of the Authority was duly adopted at a meeting of the governing body 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 throughout, and the resolution is now in full force and effect and has not been amended or superseded in any way;

(C) the Authority Documents are valid, legal and binding agreements of the Authority enforceable against the Authority (assuming due authorization, execution and delivery by and validity against the other parties thereto);

(D) to the knowledge of such counsel there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or public body pending with respect to which the Authority has been served or, to such counsel's knowledge, threatened against or affecting the Authority, except as may be disclosed in the Official Statement, which would materially adversely impact the Authority's ability to complete the transactions contemplated by the Authority Documents, the Official Statement or any other document or certificate related to such transactions, restrain or enjoin the collection of Lease Payments with respect to the Lease

Agreement, or in any way contesting or affecting the validity of the Bonds, the Official Statement, the Authority Documents or the transactions described in and contemplated thereby wherein an unfavorable decision, ruling or finding would materially adversely affect the validity and enforceability of the Bonds or the Authority Documents or in which a final adverse decision could materially adversely affect the operations of the Authority;

(E) the execution and delivery of the Authority Documents and the issuance of the Bonds and compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject, which breach or default has or may have a material adverse effect on the ability of the Authority to perform its obligations under the Authority Documents;

(F) no authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the Authority Documents or the Official Statement by the Authority or the consummation by the Authority of the transactions on its part contemplated therein, except such as have been obtained and 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; and

(G) based on the information made available to such counsel in its role as counsel to the Authority, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement under the caption entitled "INTRODUCTION – The Authority," nothing has come to its attention which would lead it to believe that the statements contained in the above-referenced caption as of the date of the Official Statement and as of the date of Closing contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(xi) an opinion dated the date of Closing and addressed to the Underwriter, the Trustee, and the Financial Advisor and the Bond Counsel, of the Office of the City Attorney of the City of Palm Springs, to the effect that:

(A) the City is a charter city and a municipal corporation duly organized and validly existing under the Constitution and laws of the State of California;

(B) the resolution of the City approving and authorizing the execution and delivery of the City Documents and approving and authorizing the issuance of the Bonds and the delivery of the Official Statement and other

actions of the City was duly adopted at a meeting of the governing body 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 throughout, and the resolution is now in full force and effect and has not been amended or superseded in any way;

(C) the City Documents are valid, legal and binding agreements of the City enforceable against the City (assuming due authorization, execution and delivery by and validity against the other parties thereto);

(D) there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or public body pending with respect to which the City has been served or, to such City Attorney's knowledge, threatened against or affecting the City, except as may be disclosed in the Official Statement, which would materially adversely impact the City's ability to complete the transactions contemplated by the City Documents, the Official Statement or any other document or certificate related to such transactions, restrain or enjoin the collection of Lease Payments with respect to the Lease Agreement, or in any way contesting or affecting the validity of the Bonds, the Official Statement or the City Documents;

(E) the execution and delivery of the City Documents and compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject, which breach or default has or may have a material adverse effect on the ability of the City to perform its obligations under the City Documents;

(F) no authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the City Documents or the consummation by the City of the transactions on its part contemplated therein, except such as have been obtained and 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; and

(G) based on the information made available to City Attorney, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to its attention which would lead it to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, as to which no opinion is expressed and information relating to the Authority and DTC and its book entry system) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(xii) an opinion of Fulbright & Jaworski LLP, Disclosure Counsel to the Authority and the City dated the date of Closing and addressed to the Authority, the City, the Underwriter and the Financial Advisor;

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

(A) the Trustee is a national banking association duly organized and validly existing under the laws of the United States, having full corporate power to undertake the trust created under the Indenture;

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

(C) the Trustee has duly authenticated the Bonds upon the order of Authority;

(D) the Trustee's actions in executing and delivering the Trustee Documents are in full compliance with, and do not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, do not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(E) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the execution and delivery of the Bonds or the consummation by the Trustee of its obligations under the Trustee Documents.

(xiv) a certificate, dated the date of Closing, signed by a duly authorized officer of the Trustee satisfactory in form and substance to the Underwriter, to the effect that:

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

(B) the Trustee is duly authorized to enter into the Trustee Documents and has duly executed and delivered the Trustee Documents, and assuming due authorization and execution by the other parties thereto, the

Trustee Documents are legal, valid and binding upon the Trustee and enforceable against such party in accordance with its terms;

(C) the Trustee has duly authenticated the Bonds under the Indenture and delivered the Bonds to or upon the order of the Underwriter; and

(D) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is required for the execution and delivery of the Bonds or the consummation by the Trustee of its obligations under the Trustee Documents.

(xv) the preliminary and final Statement 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 Government Code;

(xvi) a copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book-entry system;

(xvii) the tax and nonarbitrage certificate by the Authority and the City in form and substance to the reasonable satisfaction of Bond Counsel and the Underwriter;

(xviii) a title policy in form and substance acceptable to Bond Counsel, the Underwriter and Underwriter's Counsel;

(xix) an opinion _____ ("Underwriter's Counsel") in form and substance acceptable to the Underwriter;

(xx) a certificate, dated the date of the Preliminary Official Statement, of the City, as required under Rule 15c2-12;

(xxi) a certificate, dated the date of the Preliminary Official Statement, of the Authority, as required under Rule 15c2-12;

(xxii) a certificate, dated the date of the Official Statement, of Harrell & Company Advisors, LLC regarding the Official Statement in form and substance acceptable to the Underwriter; and

(xxiii) such additional legal opinions, Bonds, proceedings, instruments or other documents as the Underwriter or Underwriter's Counsel may reasonably request.

Section 9. Changes in Official Statement. Within 90 days after the Closing or within 25 days following the "end of the underwriting period" (as defined in Rule 15c2-12), whichever occurs first, if any event relating to or affecting the Bonds, the Trustee, the City or the Authority shall occur as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in any material respect in the light of the circumstances existing at the time it is delivered to a purchaser, the Authority will

forthwith prepare and furnish to the Underwriter an amendment or supplement 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 existing at the time the Official Statement is delivered to purchaser, not misleading. The City and the Authority shall cooperate with the Underwriter in the filing by the Underwriter of such amendment or supplement to the Official Statement with the MSRB. The Underwriter acknowledges that the "end of the underwriting period" will be the date of Closing unless the Underwriter otherwise notifies the City in writing that it still owns some or all of the Bonds.

Section 10. Expenses. Whether or not the transactions contemplated by this Purchase Agreement are consummated, the Underwriter shall be under no obligation to pay, and the Authority shall pay only from the proceeds of the Bonds, but only as the Authority and such other party providing such services may agree, all expenses and costs of the Authority and the City incident to the performance of their obligations in connection with the authorization, issuance, sale and delivery of the Bonds to the Underwriter, including, without limitation, printing costs, rating agency fees and charges, initial fees of the Trustee, including fees and disbursements of its counsel, if any, fees and disbursements of Bond Counsel, Disclosure Counsel, the Financial Advisor and other professional advisors employed by the Authority or the City, costs of preparation, printing, signing, transportation, delivery and safekeeping of the Bonds and for expenses (included in the expense component of the spread) incurred by the Underwriter. The Underwriter shall pay all out-of-pocket expenses of the Underwriter, including, without limitation, the fees and expenses of its counsel, advertising expenses, the California Debt and Investment Advisory Commission fee, CUSIP Services Bureau charges, regulatory fees imposed on new securities issuers and any and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds.

Section 11. Notices. Any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to E. J. De La Rosa & Co., Inc., 10866 Wilshire Boulevard, Penthouse Suite 1650, Los Angeles, California 90024, Attention: Raul Amezcua. All notices or communications hereunder by any party shall be given and served upon each other party. Any notice or communication to be given the Authority under this Purchase Agreement may be given by delivering the same in writing to the City of Palm Springs Financing Authority, c/of City of Palm Springs, 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262, Attention: Executive Director. Any notice or communication to be given the City under this Purchase Agreement may be given by delivering the same in writing to the City of Palm Springs, 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262, Attention: Assistant City Manager, with a copy to the Finance Director.

Section 12. Parties in Interest. This Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns thereof) and no other person shall acquire or have any right hereunder or by virtue hereof. All representations, warranties and agreements of the Authority and the City in this Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds.

Section 13. Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 14. Governing Law. This Purchase Agreement shall be governed by the laws of the State of California.

E. J. DE LA ROSA & CO., INC.

By: _____
Name: _____
Title: _____

Accepted:

CITY OF PALM SPRINGS
FINANCING AUTHORITY

APPROVED AS TO FORM

By: _____
Executive Director
Time of Execution: _____

Authority Counsel

Accepted:

CITY OF PALM SPRINGS

APPROVED AS TO FORM

By: _____
City Manager
Time of Execution: _____

City Attorney

EXHIBIT A

MATURITY SCHEDULE

| <u>Maturity Date</u> <u>(November 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|---|---|--|---------------------|---------------------|
| 2013 | \$ | % | % | |
| 2014 | | | | |
| 2015 | | | | |
| 2016 | | | | |
| 2017 | | | | |
| 2018 | | | | |
| 2019 | | | | |
| 2020 | | | | |
| 2021 | | | | |
| 2021 | | | | |
| 2022 | | | | |
| 2022 | | | | |
| 2023 | | | | |
| 2024 | | | | |
| 2025 | | | | |

\$ _____ % Term Bonds maturing June 1, 2035, Yield ____ %



JONES HALL

650 California Street
18th Floor
San Francisco, CA 94108
t. 415.391.5780
f. 415.391.5784

February 17, 2012

City of Palm Springs
3200 Tahquitz Canyon Way
Palm Springs, California 92263

Attention: David H. Ready, Esq., Ph.D.
City Manager

RE: Proposed Issuance of Lease Revenue Bonds, 2012 Series B
(Downtown Revitalization Project)
Engagement of Bond Counsel

Ladies and Gentlemen:

The City of Palm Springs (the "City") proposes to cause the City of Palm Springs Financing Authority (the "Authority") to issue its bonds (the "Bonds") to provide funds to finance a revitalization project for downtown Palm Springs, including the refurbishment of certain public parking facilities and the creation of new public improvements. The Bonds will be secured by general fund lease payments to be made by the City pursuant to a lease and leaseback of certain City-owned assets. The City desires that we assist the City and the Authority, as bond counsel, in the preparation and conducting of the proceedings for the issuance of the Bonds.

We have served the City and the Authority several times in the past as bond counsel and disclosure counsel and are pleased to have this opportunity to again serve the City as bond counsel for the financing of this vital project.

Our engagement as bond counsel will require us to provide to the City and the Authority all services customarily provided by bond counsel, including the following:

- (a) Confer and consult with the City staff and the other members of the financing team as to any legal matters relating to the proceedings for the issuance, sale and delivery of the Bonds.
- (b) Attend such meetings of the City and any staff or administrative meetings at which any financing proceedings are to be discussed deemed necessary for the proper planning of the proceedings, as requested by the City.



(c) Prepare all resolutions, indentures, supplemental indentures, lease agreements, notices and other legal documents necessary for the proper conduct of the proceedings for issuance of the Bonds.

(d) Prepare and provide all closing documents required to accompany the delivery of the Bonds.

(e) Assemble and provide a complete transcript of the conduct of the proceedings in sufficient quantity to provide each significant participant with a copy.

(f) Subject to completion of proceedings to our satisfaction, provide our legal opinion approving in all regards the legality of all proceedings for the authorization, issuance, sale and delivery of the Bonds.

(g) Confer and consult with City officials with regard to questions which may arise during the period of payment of the Bonds.

(h) Provide any other services reasonably requested of bond counsel and not set forth above

Any services rendered in any litigation involving the City or the financing proceedings relating to the Bonds are excepted from the services to be rendered for the above compensation. There is also excepted any obligation to review or render any opinion with respect to investment agreements or other investment arrangements relating to the investment of the proceeds of the Bonds or to prepare documentation regarding compliance with Section 148 of the Internal Revenue Code of 1986, relating to arbitrage limitations and rebate provisions, as well as continuing disclosures required under federal securities and/or state laws and regulations.

Andy Hall will have primary responsibility for the bond counsel services to be provided to the City.

We would like to express our appreciation to the City for engaging us in the past, including as bond counsel for the recently issued Lease Revenue Refunding Bonds, 2012 Series A, by reducing our standard fee for this vital project. We propose to that our compensation be fixed at a flat fee of \$85,000.

In addition to the foregoing fee, we would expect to be reimbursed for actual out-of-pocket expenses associated with the transaction in an amount not to exceed \$3,500. Reimbursed expenses are expected to include shipping, delivery and courier service, official transcript duplication and travel expenses (but only for any travel outside of the State of California). Please note that payment of both fees and expenses is contingent upon a successful sale and delivery of the Bonds.

I hope that the foregoing is acceptable to the City. Needless to say, if you have any questions or would like to discuss any of the foregoing, please give me a call – Andy Hall (415) 391-5780. Upon approval by the City, would you please, at your convenience, have someone email, fax or mail a copy of this letter to us showing your approval. Our email address is ahall@joneshall.com and fax number is (415) 391-5784.



City of Palm Springs
Letter of Engagement
February 17, 2012

We certainly look forward to working again with the City on the financing of this vital project.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Andrew C. Hall, Jr.', written in a cursive style.

Andrew C. Hall, Jr.

Cc: Suzanne Harrell,
Harrell & Company,
Financial Advisors

February 17, 2012

David H. Ready, Esq., Ph.D
City Manager
City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, California 92762

Dear Mr. Ready:

We are pleased to provide this proposal to serve as Disclosure Counsel to the City of Palm Springs (the "City") in connection with the issuance of lease revenue bonds for the Downtown Revitalization Project.

Fulbright & Jaworski L.L.P. (the "Firm"), which is one of the largest law firms in the United States, has consistently been ranked among the leading law firms for public finance transactions. According to Thomson Reuters, in 2011 the Firm ranked sixth nationally based on the principal amount of bonds for which we served as disclosure counsel.

As Disclosure Counsel, we will review and provide comments with respect to the preliminary official statement and the final official statement and perform appropriate due diligence in connection with the same. We will also review the Continuing Disclosure Agreement prepared by bond counsel for the financing. We will render an opinion to the City and the Underwriter, if applicable, as to the adequacy of the official statement.

For purposes of this engagement we are willing to fix our fees for services as Disclosure Counsel at \$25,000, including out of pocket disbursements. Such fees are entirely contingent on the successful delivery of the bonds. If the bonds are not sold and delivered, the City will not be liable for any legal services provided or costs incurred by the Firm.

The provisions herein for payment of fees on a fixed fee basis pertain to the ordinary and customary services rendered in connection with transactions of type described herein. Services performed which are occasioned by unforeseen delays, litigation, adverse litigation, validation actions, the need to obtain federal tax rulings, the use of derivative products or investment agreements, or other similar matters are to be billed at our standard hourly rates. No services to be billed at hourly rates will be undertaken without the written direction of the City.

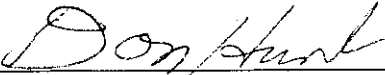
You are advised that the firm maintains Professional Errors and Omissions insurance coverage applicable to the services which we would render as Disclosure Counsel.

David H. Ready, Esq., Ph.D., City Manager
February 17, 2012
Page 2

If this arrangement is satisfactory to you, please return to us a copy of this letter executed by an authorized officer of the City.

Respectfully submitted,

Fulbright & Jaworski L.L.P.

By: 
Donald L. Hunt, Partner

Terms of Disclosure Counsel Employment
Approved This ____ Day
of _____, 2012

City of Palm Springs

Name: _____
Title: _____

**CITY OF PALM SPRINGS
PUBLIC HEARING NOTIFICATION**

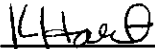


City Council
Meeting Date: April 11, 2012
Subject: Proposed Issuance of 2012 Lease Revenue Bonds

AFFIDAVIT OF PUBLICATION

I, Kathie Hart, Chief Deputy City Clerk, of the City of Palm Springs, California, do hereby certify that a copy of the attached Notice of Public Hearing was published in the Desert Sun on March 31, 2012.

I declare under penalty of perjury that the foregoing is true and correct.



Kathie Hart, CMC
Chief Deputy City Clerk

AFFIDAVIT OF POSTING

I, Kathie Hart, Chief Deputy City Clerk, of the City of Palm Springs, California, do hereby certify that a copy of the attached Notice of Public Hearing was posted at City Hall, 3200 E. Tahquitz Canyon Drive, on the exterior legal notice posting board and in the Office of the City Clerk on March 27, 2012.

I declare under penalty of perjury that the foregoing is true and correct.



Kathie Hart, CMC
Chief Deputy City Clerk

NOTICE OF PUBLIC HEARING
CITY COUNCIL
CITY OF PALM SPRINGS

PROPOSED ISSUANCE OF 2012 LEASE REVENUE BONDS

NOTICE IS HEREBY GIVEN that pursuant to Section 6586.5 of the California Government Code, the City Council of the City of Palm Springs (the "City") will hold a public hearing on Wednesday, April 11, 2012, at the hour of 6:00 o'clock P.M. (or as soon thereafter as the matter may be heard), at the regular meeting place of the City Council, in Council Chamber, at 3200 Tahquitz Canyon Way, Palm Springs, California

The purpose of the hearing is to consider the proposed issuance by the City of Palm Springs Financing Authority (the "Authority") of its City of Palm Springs Financing Authority 2012 Lease Revenue Bonds (Downtown Revitalization Project), in the approximate principal amount of \$47,000,000 (the "Bonds") to provide funds to acquire certain surface and below grade parking structures, to reconfigure certain streets and to acquire and construct related public improvements; and whether there are any significant public benefits to the City from such proposed financing with the proceeds of the Bonds, including demonstrable savings to the City from the issuance and sale of the Bonds by the Authority, such as savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs (in accordance with California Government Code Section 6586).

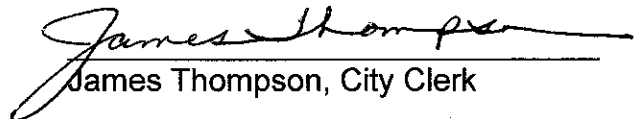
REVIEW OF INFORMATION: The staff report and other supporting documents regarding this will be available for public review after April 5, 2012, at City Hall between the hours of 8:00 a.m. to 6:00 p.m., Monday through Thursday. Please contact the Office of the City Clerk at (760) 323-8204 if you would like to schedule an appointment to review these documents.

COMMENTS: Response to this notice may be made verbally at the Public Hearing and/or in writing before the hearing. Written comments may be made to the City Council by letter (for mail or hand delivery) to:

James Thompson, City Clerk
3200 East Tahquitz Canyon Way
Palm Springs, CA 92262

Any challenge of the proposed in court may be limited to raising only those issues raised at the Public Hearing described in this Notice or in written correspondence delivered to the City Clerk at, or prior to the hearing. (Government Code Section 65009[b][2]). An opportunity will be given at said hearing for all interested persons to be heard. Questions regarding this case may be directed to Geoffrey Kiehl at (760) 323-8229.

Si necesita ayuda con esta carta, porfavor llame a la Ciudad de Palm Springs y puede hablar con Nadine Fieger telefono (760) 323-8245.


James Thompson, City Clerk