



# City Council/Financing Authority Staff Report

DATE: April 19, 2017 NEW BUSINESS

SUBJECT: APPROVAL OF REFINANCING OF 2007 LEASE REVENUE  
REFUNDING BONDS

FROM: David H. Ready, City Manager

BY: Suzanne Harrell, City Financial Advisor

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## SUMMARY

In 2007, the City of Palm Springs Financing Authority issued 2007 Lease Revenue Refunding Bonds (2007 Bonds) to refinance obligations issued to fund the Resort Golf Course, the Police Building and the Co-Generation Plant Building. The 2007 Bonds mature in 10 years and bear interest at 4.65%.

The City and the Authority have the opportunity to refinance the 2007 Bonds at this time and save approximately \$1.1 million over the next 10 years.

## RECOMMENDATION:

Acting as the City Council:

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 REFUNDING BONDS, 2017 SERIES A, APPROVING SALE OF SUCH BONDS AND OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

Acting as the Financing Authority Board:

Approve Resolution No. \_\_\_\_ "A RESOLUTION OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY AUTHORIZING ISSUANCE OF CITY OF PALM SPRINGS

FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, 2017 SERIES A  
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:

The 2007 Bonds were issued in a principal amount of \$20,365,000 to refinance debt issued to finance the Resort Golf Course, the Police Building and the Co-Generation Plant building. The 2007 Bonds mature in Fiscal Year 2026-27 and will have a principal balance of \$10,570,000 after the upcoming April 1 principal payment. The average interest rate on the outstanding 2007 Bonds is 4.66%.

Beginning on April 1, 2017, the 2007 Bonds became eligible to be called for redemption on 30 days' notice to existing bondholders. Based on current interest rates -- an average 2.56% based on a 10 year maturity -- the City can save an estimated \$1,090,000 over the life of the 2007 Bonds by refinancing at this time, or approximately \$109,000 each year. This is a savings of 8.1% of the total remaining debt service on the 2007 Bonds. The refunding bonds will mature on May 1, 2027, in the same Fiscal Year as the original 2007 Bonds.

The interest rate estimate is based on the City's current "AA" general fund lease rating from S&P.

**Method of Sale and Authorizing Resolutions**

The City has financed and refinanced many public improvements using Lease Revenue Bonds issued by the City of Palm Springs Financing Authority (Authority). The 2007 Bonds being refinanced were issued as Lease Revenue Bonds, and staff is recommending that Lease Revenue Bonds be used as the structure for this refinancing as well. The 2007 Bonds were secured by lease payments to be made by the City to the Authority relating to the City's Police Building and the Resort Golf Course.

Just as in 2007, selling the Lease Revenue 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 again lease the Police Building and the Resort Golf Course to the Authority pursuant to a Site and Facilities Lease, and the Authority will lease the the 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, as was done in 2007.

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 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;
- Irrevocable Refunding Instructions given by the City and the Authority and the 2007 Bonds Trustee (US Bank);
- A Bond Purchase Agreement between the City, the Authority and Stifel Nicolaus; and
- A Preliminary Official Statement

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 (US Bank);
- Irrevocable Refunding Instructions given by the City and the Authority and the 2007 Bonds Trustee (US Bank);
- An Assignment Agreement between the Authority and the Trustee;
- A Bond Purchase Agreement between the City, the Authority and Stifel Nicolaus; and
- A Preliminary Official Statement

Both resolutions approve the distribution of the preliminary official statement relating to the Bonds and authorize the execution of the Bond Purchase Agreement by the City Manager and Authority Executive Director, within certain parameters. These parameters are (1) the true interest cost of the financing must be less than 3.25% and (2) the underwriters' discount cannot exceed 0.65% 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 May 1 and any comments on the information communicated to the City Manager.

**FISCAL IMPACT:**

Staff is recommending that the City Council and Authority Board approve a refinancing that meets a threshold present value savings of 5%. This savings level would reduce the annual payments on the 2007 Bonds by a total of at least \$75,000 per year. Based on current rates, the savings is expected to be \$1,090,000 over 10 years (8.1% payment reduction), with a present value savings of 9.7% of the existing payments.

Based on the original financing of projects, 81% of the savings will provide a direct benefit to the General Fund. The remaining 19% will reduce the cost of the Co-Generation Plant operations, which will be shared by numerous General Fund departments and the Airport Operations fund. The total General Fund benefit is anticipated to be \$98,000 annually.

	<u>Existing Annual Payment</u>	<u>Share</u>	<u>New Annual Payment</u>	<u>Savings</u>
Police Building	\$ 150,000	11.2%	\$ 138,000	\$ 12,000
Golf Course	940,000	69.8%	864,000	76,000
Co Gen Building	<u>255,000</u>	<u>19.0%</u>	<u>234,000</u>	<u>21,000</u>
	\$1,345,000	100.0%	\$1,236,000	\$109,000
x 10 Years	\$13,450,000		\$12,360,000	\$1,090,000
Debt Service Savings				8.1%

The estimated bond size is \$10,890,000. The table below shows the estimated use of bond proceeds:

Redeem 2007 Bonds	\$10,670,000
Costs of Issuance	155,000
Underwriter Discount	<u>65,000</u>
Total	\$10,890,000

The savings realized are net of all costs to issue the bonds. These costs include bond counsel, disclosure counsel, financial advisor, trustee, rating fees and other fixed costs. The estimate of these costs is \$155,000, or 1.4% of the bonds to be issued and are listed in the table below. The underwriters' discount is less than 0.65% of the bonds, which the financial advisor has negotiated on the City's behalf and is reasonable for the number of years to maturity, the bond size and the City's "AA" credit rating.

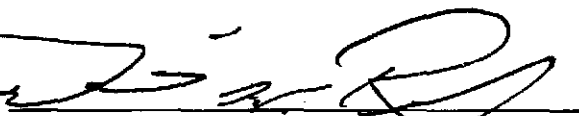
The fixed costs of issuance, excluding the underwriter compensation, are summarized below. They are payable from the proceeds of the Bonds.


Bond Counsel	\$ 47,500
Disclosure Counsel	24,000
Financial Advisor	50,000
Trustee	7,000
Printing	1,500
Rating Agency	16,500
Title Insurance	<u>8,500</u>
Total	\$155,000

If the City Council and Authority Board adopt the resolutions, staff will price the bonds as soon as it is possible to achieve the maximum savings. This is expected to occur in mid-May.

  
Suzanne Harrell  
City Financial Advisor

  
Geoffrey Kiehl  
Director of Finance

  
David H. Ready  
City Manager

  
Douglas C. Holland  
City Attorney

Attachments:

- City Resolution
- Authority Resolution
- Preliminary Official Statement
- Site and Facilities Lease
- Lease Agreement
- Indenture of Trust
- Irrevocable Refunding Instructions
- Assignment Agreement
- Bond Purchase Agreement

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA APPROVING SITE LEASE AND LEASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF CITY OF PALM SPRINGS FINANCING AUTHORITY 2017 LEASE REVENUE REFUNDING BONDS, APPROVING SALE OF SUCH BONDS AND OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO.

WHEREAS, the City of Palm Springs (the "City") and the City of Palm Springs Financing Authority (the "Authority") have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds"); and

WHEREAS, the 2007 Authority Bonds are currently subject to redemption on any date upon payment of the principal amount thereof together with accrued interest represented thereby to the redemption date, without premium; and

WHEREAS, City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"); and

WHEREAS, In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority and the City have proposed to enter into a Site and Facilities Lease under which the City leases certain real property, consisting generally of the land and improvements which constitute the Resort Golf Course and the police building which is located within the City's municipal complex (the "Leased Property") to the Authority in consideration of the agreement by the Authority to issue the Bonds, and to enter into a Lease Agreement under which the Authority leases the Leased Property back to the City in consideration of the agreement by the City to pay semiannual Lease Payments which are sufficient to provide funds for the payment of debt service on the Bonds when due; and

WHEREAS, the City Council wishes at this time to approve the issuance and sale of the Bonds by the Authority for the purpose of refinancing the 2007 Authority Bonds and to approve the execution and delivery of all related financing documents and actions;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA HEREBY RESOLVES, AS FOLLOWS:

SECTION 1. Authorization of Bonds. The City Council hereby authorizes the issuance of the Bonds by the Authority under the Bond Law in such principal amount as shall be required to provide funds to refinance the 2007 Authority Bonds in full and to provide payment of incidental financing costs.

SECTION 2. Approval of Related Financing Agreements. The City Council hereby approves each of the following agreements required for the issuance and sale of the Bonds and the refinancing of the 2007 Authority Bonds, in substantially the respective forms on file with the Interim City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager:

- Site and Facilities Lease between the City as lessor and the Authority as lessee, whereby the City leases the Leased Property to the Authority in consideration of the agreement by the Authority to issue the Bonds and apply the proceeds thereof to refinance the 2007 Authority Bonds.
- Lease Agreement between the Authority as lessor and the City as lessee, whereby the Authority leases the Leased Property back to the City in consideration of the agreement by the City to pay semiannual lease payments which are sufficient to provide revenues with which to pay debt service on the Bonds.
- Irrevocable Refunding Instructions given by the City and the Authority to U.S. Bank National Association, as trustee for the 2007 Authority Bonds, relating to the establishment and investment of funds to refinance the 2007 Authority Bonds.
- Bond Purchase Agreement between the City, the Authority and Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), under which the City and the Authority agree to sell the Bonds to the Underwriter and prescribing the terms and provisions of the sale of the Bonds.

The City Council hereby authorizes and directs the City Manager to execute and deliver the final form of each of the final documents in the name and on behalf of the City.

SECTION 3. Sale of Bonds. The City Council hereby approves the sale of the Bonds on a negotiated basis to the Underwriter. Such sale shall be accomplished pursuant to the Bond Purchase Agreement which is approved under Section 2. The City Council hereby delegates to the City Manager the authority to accept an offer from the Underwriter to purchase the Bonds, provided that the true interest rate represented by all of the Bonds (taking into account any original issue discount or original issue premium on the sale of the Bonds) shall not exceed 3.25% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.65% of the par amount of the Bonds.

SECTION 4. Approval of Official Statement. The City Council hereby approves the Preliminary Official Statement describing the Bonds, in substantially the form on file with the Interim City Clerk. Distribution of the Preliminary Official Statement by the Underwriter is hereby approved. Prior to the distribution of the Preliminary Official Statement, the City Manager is hereby authorized and directed, on behalf of the City, to deem the Preliminary Official Statement "final" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule"). The execution of the Final Official Statement, which shall include such changes and additions thereto deemed advisable by the City Manager, and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, is hereby approved for delivery to the purchasers of the Bonds. The City Manager is authorized and directed to execute and deliver the Final Official Statement for and on behalf of the City, to deliver to the Underwriter a certificate with respect to the information set forth therein and to execute and deliver a Continuing Disclosure Certificate to the Underwriter substantially in the form appended to the final Official Statement.

SECTION 5. Official Actions. The Mayor, the City Manager, the Interim City Clerk, the Finance Director 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, which they, or any of them, may deem necessary or advisable to implement the issuance and sale of the Bonds. Whenever in this Resolution any officer of the City is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

SECTION 6. Effective Date. This Resolution shall take effect from and after the date of approval and adoption thereof.



PASSED, APPROVED AND ADOPTED BY THE CITY COUNCIL OF THE  
CITY OF PALM SPRINGS THIS 19th day of April, 2017.

AYES:

NOES:

ABSENT:

ABSTENTION:

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David H. Ready, City Manager

ATTEST:

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Kathie Hart, Interim City Clerk

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY AUTHORIZING ISSUANCE OF CITY OF PALM SPRINGS FINANCING AUTHORITY 2017 LEASE REVENUE REFUNDING BONDS, 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 (the "City") and the City of Palm Springs Financing Authority (the "Authority") have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds"); and

WHEREAS, the 2007 Authority Bonds are currently subject to redemption on any date upon payment of the principal amount thereof together with accrued interest represented thereby to the redemption date, without premium; and

WHEREAS, City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"); and

WHEREAS, In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority and the City have proposed to enter into a Site and Facilities Lease under which the City leases certain real property, consisting generally of the land and improvements which constitute the Resort Golf Course and the police building which is located within the City's municipal complex (the "Leased Property") to the Authority in consideration of the agreement by the Authority to issue the Bonds, and to enter into a Lease Agreement under which the Authority leases the Leased Property back to the City in consideration of the agreement by the City to pay semiannual Lease Payments which are sufficient to provide funds for the payment of debt service on the Bonds when due; and

WHEREAS, the Board of Directors of the Authority wishes at this time to approve the issuance and sale of the Bonds by the Authority for the purpose of refinancing the 2007 Authority Bonds and to approve the execution and delivery of all related financing documents and actions;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY HEREBY RESOLVES, AS FOLLOWS:

SECTION 1. Authorization of Bonds. The Board of Directors hereby authorizes the issuance the Bonds under the Bond Law in such principal amount as shall be required to provide funds to refinance the 2007 Authority Bonds in full and to provide payment of incidental financing costs.

SECTION 2. Approval of Related Financing Agreements. The Board of Directors hereby approves each of the following agreements required for the issuance and sale of the Bonds and the refinancing of the 2007 Authority Bonds, in substantially the respective forms on file with the Interim Secretary together with any changes therein or additions thereto deemed advisable by the Executive Director:

- Indenture of Trust, between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), setting forth the terms and provisions relating to the Bonds.
- Site and Facilities Lease between the City as lessor and the Authority as lessee, whereby the City leases the Leased Property to the Authority in consideration of the agreement by the Authority to issue the Bonds and apply the proceeds thereof to refinance the 2007 Authority Bonds.
- Lease Agreement between the Authority as lessor and the City as lessee, whereby the Authority leases the Leased Property back to the City in consideration of the agreement by the City to pay semiannual lease payments which are sufficient to provide revenues with which to pay debt service on the Bonds.
- Assignment Agreement, between the Authority and the Trustee, whereby the Authority assigns certain of its rights under the Lease Agreement to the Trustee for the benefit of the Bond owners.
- Irrevocable Refunding Instructions given by the City and the Authority to U.S. Bank National Association, as trustee for the

2007 Authority Bonds, relating to the establishment and investment of funds to refinance the 2007 Authority Bonds.

- Bond Purchase Agreement between the City, the Authority and Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), under which the City and the Authority agree to sell the Bonds to the Underwriter and prescribing the terms and provisions of the sale of the Bonds.

The Board of Directors hereby authorizes and directs the Executive Director to execute and deliver the final form of each of the final documents in the name and on behalf of the City.

SECTION 3. Sale of Bonds. The Board of Directors hereby approves the sale of the Bonds on a negotiated basis to the Underwriter. Such sale shall be accomplished pursuant to the Bond Purchase Agreement which is approved under Section 2. The Board of Directors hereby delegates to the Executive Director the authority to accept an offer from the Underwriter to purchase the Bonds, provided that the true interest rate represented by all of the Bonds (taking into account any original issue discount or original issue premium on the sale of the Bonds) shall not exceed 3.25% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.65% of the par amount of the Bonds.

SECTION 4. Approval of Official Statement. The Board of Directors hereby approves the Preliminary Official Statement describing the Bonds, in substantially the form on file with the Interim Secretary. Distribution of the Preliminary Official Statement by the Underwriter is hereby approved. Prior to the distribution of the Preliminary Official Statement, the Executive Director is hereby authorized and directed, on behalf of the Authority, to deem the Preliminary Official Statement "final" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule"). The execution of the Final Official Statement, which shall include such changes and additions thereto deemed advisable by the Executive Director, and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, is hereby approved for delivery to the purchasers of the Bonds. The Executive Director is authorized and directed to execute and deliver the Final Official Statement for and on behalf of the Authority, to deliver to the Underwriter a certificate with respect to the information set forth therein and to execute and deliver a Continuing Disclosure Certificate to the Underwriter substantially in the form appended to the final Official Statement.

SECTION 5. Appointments. The financing consultant firm of Harrell & Company Advisors, LLC, Orange, California, is hereby appointed as municipal 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 Norton Rose Fulbright US LLP, 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 Interim Secretary or as approved by the Executive Director upon delivery of the Bonds.

SECTION 6. Official Actions. The Chair, the Executive Director, the Interim Secretary, the Treasurer 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, which they, or any of them, may deem necessary or advisable to implement the issuance and sale of the Bonds. Whenever in this Resolution any officer of the Authority is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

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

PASSED, APPROVED AND ADOPTED BY THE BOARD OF  
DIRECTORS OF THE CITY OF PALM SPRINGS FINANCING AUTHORITY  
THIS 19th day of April, 2017.

AYES:

NOES:

ABSENT:

ABSTENTION:

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David H. Ready, Executive Director

ATTEST:

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Kathie Hart, Interim Secretary

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, interest on the Bonds is exempt from California personal income taxes. See “LEGAL MATTERS - Tax Exemption” herein.*

**\$10,885,000\***

**CITY OF PALM SPRINGS FINANCING AUTHORITY  
2017 LEASE REVENUE REFUNDING BONDS**

**Dated: Date of Delivery**

**Due: As shown on the inside cover page**

The City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds (the “Bonds”) are being issued to refinance an existing lease and certain related outstanding lease revenue bonds, and 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 (the “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 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 November 1 and May 1 of each year, commencing November 1, 2017, until maturity or earlier special mandatory redemption. See “THE BONDS - General Provisions” and “THE BONDS - Redemption” herein.

**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. 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 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 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 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 Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel, and for the Underwriter by its Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about \_\_\_\_\_, 2017 through the facilities of The Depository Trust Company (see “APPENDIX E - THE BOOK-ENTRY SYSTEM” herein).

The date of the Official Statement is \_\_\_\_\_, 2017.

**STIFEL**

\* Preliminary, subject to change.

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 under the securities laws of such jurisdiction.

**\$10,885,000\***  
**CITY OF PALM SPRINGS FINANCING AUTHORITY**  
**2017 LEASE REVENUE REFUNDING BONDS**

**MATURITY SCHEDULE**  
**(Base CUSIP®† 69666J)**

<b>Maturity Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Reoffering</b>	
<b><u>May 1</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP®†</u></b>
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				

\* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the City, the Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the Authority, the City, the Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.



## 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.

**Effective Date.** This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

**No Offering May be Made Except by This Official Statement.** 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 Municipal 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.

**Preparation of this Official Statement.** The information contained in this Official Statement has been obtained from sources that are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the Bonds, the Lease Agreement, the Indenture or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City Clerk for further information. See "INTRODUCTION - Summaries Not Definitive."

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

**Bonds are Exempt from Securities Laws Registration.** The issuance, sale and delivery of the Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the City, any press release and 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.

**Stabilization of and Changes to Offering 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 cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

**City Website.** The City maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Bonds unless specifically set forth or incorporated herein.

**CITY OF PALM SPRINGS FINANCING AUTHORITY**

**CITY COUNCIL/AUTHORITY BOARD MEMBERS**

Robert Moon, *Mayor*  
Ginny Foat, *Mayor Pro Tem*  
Geoff Kors, *Councilmember*  
Christopher Mills, *Councilmember*  
J.R. Roberts, *Councilmember*

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**CITY STAFF**

David H. Ready, Esq., Ph.D., *City Manager*  
Marcus Fuller, *Assistant City Manager/City Engineer*  
Geoffrey S. Kiehl, *Director of Finance and Treasurer*  
Kathleen D. Hart, *Interim City Clerk*

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**PROFESSIONAL SERVICES**

**Bond Counsel**

Jones Hall  
A Professional Law Corporation  
San Francisco, California

**Disclosure Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

**Municipal Advisor**

Harrell & Company Advisors, LLC  
Orange, California

**Trustee and Escrow Bank**

U.S. Bank National Association  
Los Angeles, California

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# OFFICIAL STATEMENT

**\$10,885,000\***

## **CITY OF PALM SPRINGS FINANCING AUTHORITY 2017 LEASE REVENUE REFUNDING BONDS**

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") 2017 Lease Revenue Refunding Bonds (the "Bonds"), in the aggregate principal amount of \$10,885,000\*.

### **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). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.*

### **The City and the Authority**

The City of Palm Springs (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).

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 and the Community Redevelopment Agency of the City of Palm Springs, (as succeeded by the Successor Agency to the Palm Springs Community Redevelopment Agency and referred to as the "Successor Agency") formed the Authority by the execution of a joint exercise of powers agreement ("JPA Agreement") on February 1, 1991. The JPA Agreement was amended on July 5, 2001. On July 2, 2014, the City, the Successor Agency and the Housing Authority of the City of Palm Springs (the "Housing Authority") approved a second amendment to the JPA Agreement which removed the Successor Agency as party to the JPA Agreement and added the Housing Authority as a party to the JPA Agreement. This action was approved by the Successor Agency's oversight board and by the State of California (the "State") Department of Finance.

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.

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\* Preliminary, subject to change.

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.

## **Purpose**

The Bonds are being issued to refinance an existing lease relating to the Authority's outstanding 2007 Refunding Lease Revenue Bonds (Public Capital Improvements) (the "2007 Bonds") and to pay the costs of issuing the Bonds. See "THE FINANCING PLAN" herein.

## **Security and Sources of Repayment**

The Bonds are secured under an Indenture of Trust, dated as of May 1, 2017, (the "Indenture"), by and between the Authority and U.S. Bank National Association, 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 real property and improvements thereon (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"). See "THE LEASED PROPERTY" herein.

Pursuant to a Site and Facilities Lease, dated as of May 1, 2017 (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 back to the City under the Lease Agreement, dated as of May 1, 2017, 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 under the Assignment Agreement, dated as of May 1, 2017 (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 Authority 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).

## **Limited Obligation**

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 OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

## **No Reserve Fund**

The Authority will not fund a reserve fund for the Bonds.

## **Legal Matters**

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, Costa Mesa, California as City Attorney and Norton Rose Fulbright US LLP, Los Angeles, California as Disclosure Counsel, and for the Underwriter by its Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

## **Offering of the Bonds**

**Authority for Issuance and Delivery.** The Bonds are to be issued in accordance with applicable provisions of the California Government Code, the Indenture and by Resolution No. \_\_\_\_ of the Authority adopted on \_\_\_\_\_, 2017.

**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 or about \_\_\_\_\_, 2017 through the facilities of The Depository Trust Company. See "APPENDIX E - THE BOOK-ENTRY 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 from sources which are believed to be reliable. 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. 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.

## **Summaries Not Definitive**

The summaries and references contained herein with respect to the Indenture, the Site Lease, the Lease Agreement, the Assignment Agreement, 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 Municipal Advisor. Copies of these documents may be obtained after delivery of the Bonds at the trust office of the Trustee, U.S. Bank National Association, Los Angeles, California or from the City at 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262.

### **Scheduled Debt Service on the Bonds**

The following is a schedule of Lease Payments and therefore the total scheduled debt service on the Bonds.

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Total</u>	<u>Fiscal Year Total*</u>
November 1, 2017				
May 1, 2018				
November 1, 2018				
May 1, 2019				
November 1, 2019				
May 1, 2020				
November 1, 2020				
May 1, 2021				
November 1, 2021				
May 1, 2022				
November 1, 2022				
May 1, 2023				
November 1, 2023				
May 1, 2024				
November 1, 2024				
May 1, 2025				
November 1, 2025				
May 1, 2026				
November 1, 2026				
May 1, 2027				
Total				

\* Fiscal Years ending June 30.

# THE FINANCING PLAN

## The Refunding Program

On the Delivery Date, the Authority will irrevocably deposit a portion of the proceeds of the Bonds and certain funds held with respect to the 2007 Bonds with the Trustee as escrow bank (the "Escrow Bank"), pursuant to an Escrow Agreement, dated as of May 1, 2017 (the "Escrow Agreement") by and between the Authority, the City and the Escrow Bank. The deposits will be in an amount sufficient, together with earnings thereon, to prepay the 2007 Bonds then outstanding pursuant to an optional prepayment thereof on June 12, 2017 at a prepayment price equal to 100% of the principal amount thereof together with accrued interest thereon to the date of prepayment.

Bond Counsel will deliver an opinion at closing to the effect that, assuming the sufficiency of the amounts deposited pursuant to the Escrow Agreement, the lien of the 2007 Bonds and related lease of the property securing such 2007 Bonds will be discharged, terminated and of no further force and effect upon the deposit with the Escrow Bank of the amounts required pursuant to the Escrow Agreement. Amounts on deposit with the Escrow Bank are not available to pay debt service on the Bonds.

## Verification

Grant Thornton LLP will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the cash listed in the schedules prepared by the Municipal Advisor, to be held in escrow, will be sufficient together with earnings thereon to pay the prepayment price of the 2007 Bonds then outstanding on June 12, 2017, and (2) the computation of yield on the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excluded from gross income for purposes of federal taxation. Grant Thornton LLP will express no opinion on the assumptions provided to them, nor as to the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

## 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  
Original Issue Premium  
Total Sources

### Uses of Funds

Transfer to Escrow Bank  
Underwriter's Discount  
Costs of Issuance Fund <sup>(1)</sup>  
Total Uses

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<sup>(1)</sup> Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs of issuance of the Bonds.



## THE LEASED PROPERTY

The Leased Property is comprised of the City's police building (a portion of the Police Department headquarters) and a City-owned 18-hole golf course. Pursuant to the terms of the Site Lease, the City leases the Site to the Authority. Pursuant to the terms of the Lease Agreement, the Authority leases the Site back to the City. The Site consists of (1) \_\_ acres improved with the Police Building and (2) approximately \_\_ acres of improved land and the buildings thereon consisting of the City's Tahquitz Creek Golf Resort - Resort Course, as described below.

**The Police Building.** The Police Building ("Police Building") component of the Leased Property consists of a single story, tilt up concrete building of approximately 33,000 square feet. The building was constructed in 1985 adjacent to the main police facility and located within the City's municipal complex.

**The Golf Course.** The Golf Course ("Golf Course") component of the Leased Property is the City's 18-hole *Resort* golf course (the "Resort Course"). The Resort Course is adjacent to the City's 18-hole *Legends* golf course, which together are known as the "Tahquitz Creek Golf Resort." The two courses share common facilities such as the clubhouse. The Resort Course was designed by golf course architect Ted Robinson. The Resort Course opened in February 1995.

Although the City accounts for the operations of the Tahquitz Creek Golf Resort as an enterprise fund (the "Golf Course Enterprise"), net revenues of the Golf Course Enterprise are not pledged to the payment of the Lease Payments. Only the General Fund of the City is obligated to make the Lease Payments relating to the Bonds. However, the City expects to use net revenues of the Golf Course Enterprise to pay a portion of Lease Payments to the extent net revenues are available. The Tahquitz Creek Golf Resort is managed under a contract with Century Golf ("Century Golf"). The current contract with Century Golf will expire \_\_\_\_\_. Financial and operating information for the Golf Course Enterprise is shown under the heading "FINANCIAL INFORMATION - The Golf Course Enterprise."

The Police Building is insured for property damage at replacement cost in the total amount of \$\_\_ million replacement value. The facilities located on the Golf Course are insured for property damage at replacement cost in the amount of \$\_\_ million. Pursuant to the Lease Agreement, the City and the Authority will agree and determine that the Lease Payments required to be made under the Lease Agreement represent fair rental value of the Leased Property. The Police Building is included in City properties currently insured for earthquake (see "RISK FACTORS - Seismic Considerations"). However, the City is only obligated to maintain earthquake insurance during the term of the Lease Agreement if it is available at a reasonable cost from reputable insurers. The Leased Property is not located in a 100-year Flood Plain, however, portions of the Golf Course component of the Leased Property are within the Tahchevah Creek Detention Reservoir dam failure inundation pathway (see "RISK FACTORS - \_\_\_\_\_").

**Substitution or Release of Property.** Under the terms of the Lease Agreement, the City may substitute other property for the Leased Property, or any portion thereof, and may release portions of the Leased Property provided that certain conditions set forth in the Lease Agreement are met. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Substitution of Property" and "- Release of Property."

# 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 November 1, 2016 and each May 1 and November 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 November 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 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 - THE BOOK-ENTRY 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.

## Redemption

**No Optional Redemption.** The Bonds are not subject to optional redemption prior to 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. See "SOURCES OF PAYMENT FOR THE BONDS - Insurance

Relating to the Property.” 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).

**Notice of Redemption.** If a special mandatory redemption is authorized or required, the Trustee shall mail notice of such 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 - THE BOOK-ENTRY SYSTEM.”

**Effect of Redemption.** Notice of any special mandatory 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 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.

## **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 at least 5 business 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.

California law requires, and the Lease Agreement provides, that the Lease Payments may be abated in whole or in part if portions of the Leased Property are destroyed, damaged or condemned. The amount of Lease Payments shall be abated during any period in which, by reason of material damage or destruction of any component of the Leased Property, or all or part of the Leased Property being taken by condemnation or eminent domain, there is substantial interference with the use and occupancy of the Leased Property by the City. The amount of such abatement shall 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 damaged, destroyed or removed from use by the City. In the event of any damage or destruction or taking under power of eminent domain, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage or destruction or taking.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, 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, as determined by the City, is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) the proceeds of rental interruption insurance and/or amounts on deposit in the Insurance and Condemnation Fund and/or the Bond Fund are available to pay Lease Payments which would otherwise be abated, it being 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 proceeds of insurance or condemnation award (if any) 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.

If on November 1, 2027, the Indenture shall not be discharged by its terms, or if the Lease Payments shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be extended until the Indenture shall be discharged by its terms, but no later than November 1, 2037.

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. 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 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 City may enter into other obligations payable from its General Fund without the consent of the Bond Owners. To the extent the City issues such obligations, funds available to pay Lease Payments may be reduced. See "RISK FACTORS - The Lease Payments - Lease Payments are Limited Obligations of the City" herein.

### **No Reserve Fund**

The Authority will not fund a reserve fund for the Bonds.

### **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 maximum Lease Payments due in any two consecutive fiscal years. The City is required to maintain earthquake insurance only with respect to the Police Building and only to the extent available at reasonable cost from reputable insurers, therefore, although the City currently maintains earthquake insurance with respect to the Police Building, damage from earthquakes may not be covered in future years.

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

In the event the Leased Property is damaged or destroyed, the Net Proceeds of any insurance award resulting from such 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. 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 as described under the caption "THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds." 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. 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 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.

The Lease Agreement also requires the City to insure title to the Leased Property in an amount not less than the initial principal amount of the Bonds. 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 under the caption "THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds."

**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 Default."

# CITY OF PALM SPRINGS

## General Information

The City of Palm Springs is located at the western edge of the Coachella Valley in central Riverside County, sited at the base of Mt. San Jacinto. The City is located 108 miles east of Los Angeles and 120 miles west of the Arizona border. Palm Springs covers a geographical area of 96.2 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 annual Palm Springs International Film Festival, with premieres, parties, conferences and celebrations, epitomizes the Palm Springs lifestyle. Other annual events include Modernism Week, focusing on the City's collection of mid-century modern architecture, the Palm Springs Desert Resorts Restaurant Week, the Desert Arts Festival and Festival of Lights Parade.

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.

Other events in the area include the Coachella Valley Music Festival, Stagecoach Country Music Festival and BNP Paribas Open Tennis Tournament.

There are over 200 hotels and inns in Palm Springs and throughout the Coachella Valley. Accommodating vacationers and visitors plays a major role in the City's economy, and generates 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 each elected at large for four-year alternating terms and a Mayor elected to a four-year term. Positions of City Manager and City Attorney are filled by appointments of the City Council. The City has 439.5 full-time equivalent budgeted positions in Fiscal Year 2016/17, including sworn officers and fire personnel.

The current 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>
Robert Moon, Mayor	December 2, 2019
Ginny Foat, Mayor Pro Tem	December 6, 2017
Geoff Kors	December 2, 2019
Christopher Mills	December 6, 2017
J.R. Roberts	December 2, 2019

## CHIEF ADMINISTRATIVE PERSONNEL

David H. Ready, Esq., Ph.D., *City Manager*  
Marcus Fuller, *Assistant City Manager/City Engineer*  
Geoffrey S. Kiehl, *Director of Finance and Treasurer*

## Governmental Services

### *Public Safety and Welfare*

The City of Palm Springs Police Department consists of 131 sworn police officers and non-sworn personnel providing patrol, traffic, animal control and investigations. There are 5 operating 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. The City operates a cogeneration facility which provides electricity to certain municipally owned facilities, Southern California Edison provides electricity throughout the City. The City owns and operates the Palm Springs International Airport, with 6 major airlines and 7 regional airlines serving nearly 2 million passengers in 2016.

### *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 Palm Springs Public Library, a 33,000 square foot facility with over 100,000 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. Facilities include two community centers, eight parks, a dog park, an Olympic size community pool, ten tennis courts and eight pickleball courts, the 18-hole Tahquitz Creek Golf Resort, a 30,000 square foot 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 City is served by the Palm Springs Unified School District. 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. The College of the Desert continues to explore expanding with a West Valley Campus in Palm Springs. 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 several masters degree programs, including education and public administration. Teaching credentials are also available.

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, an 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 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 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 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.

Palm Springs has several special events that attract visitors from near and far: VillageFest, a weekly street fair held every Thursday along Palm Canyon Drive in the heart of the City's downtown, the Festival of Lights parade, Palm Springs Modernism Week, and the Palm Springs International Film Festival. Founded in 1990 by then Mayor Sonny Bono, the Palm Springs International Film Festival celebrated its 28th anniversary in January 2017. The 2017 Festival included screenings of 190 films from 72 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 famous 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 Springs' 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 population growth for Palm Springs and Riverside County between 2012 and 2016. During the winter season, population in Palm Springs increases to approximately 75,000.

**TABLE NO. 1  
CHANGE IN POPULATION  
PALM SPRINGS AND RIVERSIDE COUNTY  
2012 – 2016**

<b>January 1 Year</b>	<b><u>PALM SPRINGS</u></b>		<b><u>RIVERSIDE COUNTY</u></b>	
	<b><u>Population</u></b>	<b><u>Percentage Change</u></b>	<b><u>Population</u></b>	<b><u>Percentage Change</u></b>
2012	45,326		2,239,715	
2013	45,465	0.3%	2,266,549	1.2%
2014	45,818	0.8%	2,291,093	1.1%
2015	46,204	0.8%	2,317,924	1.2%
2016	46,654	1.0%	2,347,828	1.3%
% Change Between 2012 - 2016		2.9%	4.8%	

Source: State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2011-2016, with 2010 Census Benchmark" Sacramento, California, May 2016.

## Per Capita Personal Income

The most recent available per capita personal 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 PERSONAL INCOME  
CITY OF PALM SPRINGS, RIVERSIDE COUNTY, CALIFORNIA AND UNITED STATES  
2011 – 2015**

<b><u>Year</u></b>	<b><u>Palm Springs</u></b>	<b><u>Riverside County <sup>(1)</sup></u></b>	<b><u>State of California <sup>(1)</sup></u></b>	<b><u>United States <sup>(1)</sup></u></b>
2011	\$36,875	\$31,828	\$45,820	\$42,453
2012	37,498	32,263	48,312	44,267
2013	36,920	32,765	48,471	44,462
2014	34,947	33,867	50,988	46,614
2015	36,782	35,589	53,741	48,112

<sup>(1)</sup> For Riverside County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2011-2015 reflect county population estimates available as of March 2016.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Last updated: November 17, 2016 - new estimates for 2015; revised estimates for 2011-2014.

Source: U.S. Department of Commerce, Bureau of Economic Analysis; and City of Palm Springs Comprehensive Annual Financial Report.

## Employment

As of December 2016, the civilian labor force for the City was approximately 22,400 of whom 21,400 were employed. The unadjusted unemployment rate as of December 2016 was 4.4% for the City as compared to 5.3% for the County and 5.0% for the State. Civilian labor force, employment and unemployment statistics for the City, County, the State and the nation, for the years 2011 through 2015 are shown in the following table.

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

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>2011</u>				
City of Palm Springs	20,500	18,200	2,200	10.9%
Riverside County	978,500	849,600	128,900	13.2%
California	18,415,100	16,258,100	2,157,000	11.7%
United States	153,617,000	139,869,000	13,747,000	8.9%
<u>2012</u>				
City of Palm Springs	20,700	18,700	2,000	9.6%
Riverside County	988,600	873,600	115,100	11.6%
California	18,551,400	16,627,800	1,923,600	10.4%
United States	154,975,000	142,469,000	12,506,000	8.1%
<u>2013</u>				
City of Palm Springs	21,000	19,300	1,700	8.2%
Riverside County	998,800	899,900	98,900	9.9%
California	18,670,100	17,001,000	1,669,000	8.9%
United States	155,389,000	143,929,000	11,460,000	7.4%
<u>2014</u>				
City of Palm Springs	21,400	19,900	1,400	6.7%
Riverside County	1,017,000	933,800	83,200	8.2%
California	18,827,900	17,418,000	1,409,900	7.5%
United States	155,922,000	146,305,000	9,617,000	6.2%
<u>2015</u>				
City of Palm Springs	21,800	20,600	1,200	5.5%
Riverside County	1,035,200	965,500	69,600	6.7%
California	18,981,800	17,798,600	1,183,200	6.2%
United States	157,130,000	148,834,000	8,296,000	5.3%

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

## Industry

The City is located in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (“MSA”). As of February 2017, six major job categories constitute 78.2% of the work force. They are government (17.0%), service producing (16.7%), educational and health services (15.2%), leisure and hospitality (11.6%), professional and business services (10.2%), and transportation, warehousing and utilities (7.5%). The number of wage and salary workers by industry for each of the years 2013 through 2017 in the MSA is presented in Table No. 4 below.

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

<u>Industry</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Government	227.2	228.6	233.3	239.2	244.8
Other Services	40.2	42.6	43.3	44.4	46.1
Leisure and Hospitality	133.8	143.9	150.1	158.7	167.2
Educational and Health Services	185.1	192.4	202.2	211.2	218.9
Professional and Business Services	129.5	133.1	142.6	145.8	146.8
Financial Activities	41.4	42.0	43.5	44.4	46.0
Information	11.6	11.4	11.3	11.4	11.4
Transportation, Warehousing and Utilities	75.7	81.7	92.8	101.0	108.7
Service Producing					
Retail Trade	161.2	165.4	169.8	175.2	178.6
Wholesale Trade	55.0	57.8	60	62.5	62.7
Manufacturing					
Nondurable Goods	29.9	30.5	32.7	33.4	35.1
Durable Goods	56.4	59.2	61.7	64.1	64.7
Goods Producing					
Construction	66.4	73.6	80.3	88.7	97.7
Mining and Logging	<u>1.2</u>	<u>1.3</u>	<u>1.3</u>	<u>0.9</u>	<u>0.8</u>
Total Nonfarm	1,214.6	1,263.5	1,324.9	1,380.9	1,429.5
Farm	<u>12.7</u>	<u>14.4</u>	<u>14.0</u>	<u>13.4</u>	<u>12.5</u>
Total (all industries)	<u>1,227.3</u>	<u>1,277.9</u>	<u>1,338.9</u>	<u>1,394.3</u>	<u>1,442.0</u>

<sup>(1)</sup> Annually, as of February.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, “*Industry Employment & Labor Force - by month March 2016 Benchmark.*”

**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, 2016 are as follows:

<u>Name of Company</u>	<u>Employment</u>	<u>Type of Business/Service</u>
Desert Regional Medical Center	1,000-4,999	Medical Services
Spa Resort Casino	1,000-4,999	Casino
Hard Rock Hotel - Palm Springs	500-999	Hotel
Care Fusion	250-499	Medical Equipment - Manufacturing
City of Palm Springs City Hall	250-499	Government Services
Desert Sun	250-499	Daily Newspaper
Kaplan College	250-499	Education
Palm Springs Riviera Resort	250-499	Hotel
Savoury's Inc.	250-499	Full Service Catering
Walmart Supercenter	250-499	Discount Retail

Source: City of Palm Springs.

The City is not aware of any significant changes in its largest employers since June 2016.

### **Commercial Activity**

The following table summarizes the volume of retail sales and taxable transactions for the City of Palm Springs for 2011 through 2015 (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 increased 3.3% in 2014/15 and \_\_% in 2015/16.

**TABLE NO. 6  
CITY OF PALM SPRINGS  
TOTAL TAXABLE TRANSACTIONS  
(in thousands)  
2011 – 2015**

<u>Year</u>	<u>Retail and Food Services</u>		<u>Retail and Food Services</u>		<u>Total Taxable Transactions</u>		<u>Issued Sales</u>	
	<u>(\$000's)</u>	<u>% Change</u>	<u>Permits</u>	<u>(\$000's)</u>	<u>% Change</u>	<u>Permits</u>		
2011	\$662,012		1,409	\$ 880,426		1,973		
2012	728,329	10.0%	1,459	955,731	8.6%	2,036		
2013	758,274	4.1%	1,459	985,824	3.2%	2,033		
2014	803,028	5.9%	1,575	1,036,541	5.1%	2,175		
2015	814,310	1.4%	N/A <sup>(1)</sup>	1,039,923	0.3%	N/A <sup>(1)</sup>		

<sup>(1)</sup> Beginning in 2015, the State Board of Equalization no longer publishes this information.

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

The following table compares taxable transactions by type of business for the City of Palm Springs for the years 2011 through 2015 (the most recent year for which statistics are available from the State Board of Equalization for the full year).

**TABLE NO. 7**  
**CITY OF PALM SPRINGS**  
**TAXABLE TRANSACTIONS BY TYPE OF BUSINESS**  
**(in thousands)**  
**2011 – 2015**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> <sup>(2)</sup>
<i>Retail and Food Services</i>					
<i>Clothing and Clothing</i>					
Accessories Stores	\$ 35,678	\$ 39,934	\$ 43,508	\$ 44,157	
Food and Beverage Stores	44,267	49,225	53,658	54,612	
Food Services and Drinking Places	177,414	193,066	205,742	231,193	
<i>Home Furnishings and</i>					
Appliance Stores	11,699	12,737	14,440	15,655	
<i>Building Materials and Garden</i>					
Equipment and Supplies	81,638	89,755	89,238	98,618	
Gasoline Stations	103,943	122,154	124,041	121,691	
Other Retail Group	<u>207,373</u> <sup>(1)</sup>	<u>221,458</u> <sup>(1)</sup>	<u>153,937</u> <sup>(1)</sup>	<u>237,102</u> <sup>(1)</sup>	
<b>Total Retail and Food Services</b>	<b>662,012</b>	<b>728,329</b>	<b>758,274</b>	<b>803,028</b>	<b>\$ 814,310</b>
<i>All Other Outlets</i>	<u>218,415</u>	<u>227,402</u>	<u>227,550</u>	<u>233,513</u>	<u>225,613</u>
<b>Total All Outlets</b>	<b><u>\$ 880,426</u></b>	<b><u>\$ 955,731</u></b>	<b><u>\$ 985,824</u></b>	<b><u>\$1,036,541</u></b>	<b><u>\$1,039,923</u></b>

<sup>(1)</sup> Sales for General Merchandise Stores and Motor Vehicle and Parts Dealers are included with "Other Retail Group."

<sup>(2)</sup> Beginning in 2015, the State Board of Equalization stopped publishing Industry-level data.

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

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

## Building Activity

The following table summarizes building activity valuations for the City of Palm Springs for the five fiscal years 2011/12 through 2015/16.

**TABLE NO. 8  
CITY OF PALM SPRINGS  
BUILDING ACTIVITY AND VALUATION  
2011/12 - 2015/16**

	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Residential	\$ 32,659,420	\$ 63,187,869	\$ 69,377,439	\$ 74,300,111	\$ 56,131,946
Commercial	<u>46,516,379</u>	<u>36,836,647</u>	<u>57,675,274</u>	<u>129,424,575</u>	<u>94,709,347</u>
<b>Total Valuation</b>	<b><u>\$ 79,175,799</u></b>	<b><u>\$100,024,516</u></b>	<b><u>\$127,052,713</u></b>	<b><u>\$203,724,686</u></b>	<b><u>\$150,841,293</u></b>
<b>Number of New Residential Units</b>	<b>111</b>	<b>162</b>	<b>157</b>	<b>171</b>	<b>121</b>

Source: City of Palm Springs.

## FINANCIAL INFORMATION

### Economic Conditions and Outlook

The City, like many other municipalities, was not immune to the effects of the most recent economic recession. The City's General Fund revenues were hampered as a result of declining assessed values, depressed consumer spending and reduced tourism, and further by the dissolution of redevelopment throughout the State. The City implemented an aggressive budget reduction plan beginning in 2009 and as a result, was able to maintain General Fund reserves. The City's tax revenues now have reached or exceeded pre-recession levels as described below, and the City's Budget for Fiscal Year 2017/18 reflects continued revenue growth.

**Property Tax.** Property values in the Coachella Valley were impacted significantly by the recession and were slow to recover. Between 2008 and 2012, assessed values in the City declined by 13%. Assessed values stabilized in Fiscal Year 2012/13 and have increased in each subsequent year. In Fiscal Year 2015/16, The City's assessed value reached its pre-recession level, as shown under the caption "Taxable Property and Assessed Valuation" below.

The City's preliminary property tax budget for Fiscal Year 2017/18 is based on 3.8% increase from the Fiscal Year 2016/17 estimated property tax (excluding redevelopment agency residual property tax). Estimated property tax for Fiscal Year 2016/17 (excluding redevelopment agency residual property tax) is projected to be 7.8% higher than actual amounts for Fiscal Year 2015/16 due to the 7.5% increase in assessed value that was realized in Fiscal Year 2016/17.

**Sales Tax.** Sales tax receipts were also affected by the economic downturn, declining by 15% between Fiscal Years 2007/08 and 2009/10. Sales tax receipts rebounded by 17% in Fiscal Year 2010/11 to pre-recession levels and have been since then, except for a one-time increase in Fiscal Year 2015/16 as a result of the end of the State's "triple-flip" distribution of sales tax (see "\_\_\_" below). The City is projecting a 2% increase in sales tax in Fiscal Year 2017/18, compared to Fiscal Year 2016/17 estimated receipts, which are approximately \_\_\_% higher than Fiscal Year 2015/16 actual receipts net of the one-time adjustment.

**Measure J Sales Tax.** 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 effectively doubled the amount of sales tax received by the City starting in Fiscal Year 2012/13. The City's policy is to use the additional sales tax to service the debt that was issued to fund improvements relating to its downtown revitalization project (see "Downtown Palm Springs" below), as well as other City-wide one-time capital projects, programs, and deferred infrastructure maintenance (see "Measure J Fund") below.

**Transient Occupancy Tax.** Tourism is important to the City's economy. In 2007, the City established a Transient Occupancy Tax Hotel Incentive Reimbursement Program that refunds a portion of the transient occupancy tax to a hotel for a period of ten years for qualified new construction or significantly renovated hotels. More than \$200 million has been invested in refurbishing and renovating numerous hotels, large and small, since 2009.

After a period of weaker tourist spending between 2007 and 2009, which reduced transient occupancy taxes by 11% to \$12 million, the City experienced a 17% increase in transient occupancy tax collections in Fiscal Year 2010/11, followed by a 13% increase in Fiscal Year 2011/12. By 2012/13, transient occupancy tax was \$19.5 million. Some of the increase followed the completion of major remodels of the City's larger hotels. Increased international marketing efforts and increased airline routes and seat capacity resulting from the City's airline incentive program, which led to WestJet, Alaska, Frontier, Allegiant and Virgin America adding or expanding service, have also positively affected hotel occupancy.



Transient occupancy tax has continued to increase and is estimated to be approximately \$29.7 million in Fiscal Year 2017/18, an increase by 2.9% from projected Fiscal Year 2016/17 revenues, before deductions for the Hotel Incentive Reinvestment Program. The 154-room Kimpton Rowan Palm Springs Hotel is under construction and will open in downtown Palm Springs in 2017. The City continues to receive developer interest for new hotel stock and expects that the addition of new hotels will increase the transient occupancy tax in future years.

**Salaries and Benefits.** To deal with the impacts of declining revenues during the recession, the City implemented a 10% furlough for non-sworn general employees. For these employees, the furlough began in May 2009 and was not eliminated until Fiscal Year 2013/14. Police safety personnel were subject to a 5% furlough for a short period of time during Fiscal Year 2011/12. Until Fiscal Year 2014/15, the last cost of living increase for most bargaining groups was effective for Fiscal Year 2009/10. The City also reduced its personnel by 25% City-wide between 2009 and 2012, through early retirement programs, layoffs or attrition. Fiscal Year 2012/13 was the first time since Fiscal Year 2008/09 that the City added positions. The City continued to slowly add positions as it began to restore service capacity. With approximately 440 full-time equivalent positions authorized for Fiscal Year 2016/17, the City's total personnel remains 10% below the highest level of 488.5 authorized positions Fiscal Year 2008/09. See "Employee Relations and Collective Bargaining" below for a description of current labor agreements.

The California Public Employees' Retirement System ("PERS") continues to revise its actuarial assumptions and increase contribution rates, significantly impacting the City's budgets (see "Retirement Programs" below). The City's contribution rates are projected by PERS to \_\_\_\_\_. The City has reduced retirement benefits for new employees hired after January 1, 2013. In addition, the City is funding retirement health benefits on a pay-as-you-go basis, which is less than the actuarial required contribution. The increasing costs of retirement pension and health benefits is one of the City's greatest challenges in the next several years. See "Retirement Programs" and "Other Post Employment Benefits" herein.

**Redevelopment Agency Dissolution.** In 2012 State legislation required redevelopment agencies throughout the State to be dissolved. The City received certain one-time distributions of property tax resulting from dissolution of its redevelopment agency and will continue to receive certain residual property tax of its former redevelopment agency. See "Ad Valorem Property Taxes - Redevelopment Related Property Tax Considerations" below for a further discussion of the impact of redevelopment dissolution on the City. Since 2012, the City has had to assume certain expenses of its former redevelopment agency that were in excess of maximum amounts permitted by the new State law, or were not allowed by the State Department of Finance, which oversees the dissolution process and has ultimate approval or disapproval powers over payment of the former redevelopment agency's obligations, including obligations to the City. For example, the former redevelopment agency, and then the Successor Agency, paid \$1.6 million of the debt service on City debt obligations pursuant to actions taken under the prior redevelopment law. The State Department of Finance has disallowed such payments by the Successor Agency since Fiscal Year 2014/15 and the payments formerly funded by the Successor Agency have been incorporated into the City's budget. See "RISK FACTORS - State Budget; Redevelopment Agency Legislation."

**Downtown Palm Springs.** As described above, with the demise of redevelopment as an economic development tool, the City's voters approved a sales tax to provide the City with funding for various projects throughout the City. One such project was funding of \$43 million in infrastructure and project improvements for the Downtown Palm Springs development. The Downtown Palm Springs development is a \$150-\$180 million commercial, hotel and residential development in the heart of the City's downtown area. This development 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 development 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. The entire street grid created under the plan and conveyed to the City was designed to maximize its use for events. All of this area will be available to be closed off for special events and public activities.

Construction is underway on the Kimpton Rowan Palms Springs Hotel, a six-story 4-star boutique hotel, with an expected opening in 2017. All infrastructure should be completed by the 2nd quarter of 2017, with new commercial developments being completed in phases. The first commercial/office building is complete, with the second and third retail -mixed use buildings scheduled to be open by Thanksgiving 2017. The Downtown Palm Springs development has been a catalyst for other development in and around downtown, including a 150-room Andaz Hotel (a Hyatt luxury brand), slated to open in 2018.

**Airline Incentive Program.** The Palm Springs International Airport initiated a \$1 million air service incentive program in 2010 with the objective to provide marketing assistance to both new and existing airlines as an added incentive to introduce new routes or extend the current length of existing routes. To date, the program has supported seventeen new or expanded routes into Palm Springs by WestJet, Virgin America, Frontier, United, Allegiant, Alaska, Delta, Sun Country, Air Canada, JetBlue and American. A balance of \$172,000 remains to be used for future marketing assistance. Passenger activity has increased over 15% since 2013, and 2016 saw nearly 2 million passengers at the airport.

**Fund Balance Reserves.** Despite the difficult economic recession, the City was able to maintain relatively stable Unassigned General Fund reserves between Fiscal Years 2010/11 and 2013/14 due to its proactive expenditure control measures. Conservative revenue budgeting and one-time revenues resulting from the end of the State's "triple-flip" resulted in increases in Unassigned General Fund reserves in Fiscal Years 2014/15 and 2015/16. Beginning in April 2012, all of the new voter-approved sales tax was transferred to a capital projects fund and reserved for capital improvements. Such amounts are not included in the Unassigned General Fund reserve, although they are available for General Fund purposes until spent. See "Financial Statements - GASB Statement No. 54" below for a discussion of General Fund fund balance designations by category and "General Fund Revenues and Expenditures - Measure J Fund" below.

**Fiscal Year 2016/17 and 2017/18.** The City adopted a General Fund budget for Fiscal Year 2016/17 with an estimated budget deficit of \$2.2 million, but expects to end the year with a small (less than 1%) surplus. Preliminary budget estimates for 2017/18 result in a small (less than 1%) budget deficit for the General Fund. The historical General Fund results, Fiscal Year 2016/17 estimates and the preliminary budget for Fiscal Year 2017/18 are presented in detail in Table No. 9.

## **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 within 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).

It is the policy of the City for the City Manager and/or the Finance Director to submit reports on a quarterly basis to the City Council, comparing actual revenues and expenditures to budgeted amounts. The City Council is also provided with a midyear fiscal review which includes the current financial status of the City.

## **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.

### **Revenues**

The revenues in Table No. 9 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), residual property tax from the Successor Agency 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;
- 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, municipal and vehicle code violations and library fines;
- Revenue from Use of Money and Property, which includes interest income and rental income;
- Miscellaneous Revenue, which includes any audit recoveries, rental for park and fields and fee for banners.

The largest components of Fiscal Year 2017/18 preliminary General Fund budgeted revenues are transient occupancy tax (27.2%), property tax, excluding property tax in-lieu of motor vehicle license fees and Successor Agency residual (21%), sales tax (11.3%) and Measure J sales tax (12.3%).

### **Expenditures**

The expenditures in Table No. 9 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 39.0% of the total budgeted General Fund expenditures for Fiscal Year 2017/18.

### **Measure J Fund**

The Measure J Fund was set up by policy of the City Council and moneys transferred to this fund (the portion of sales tax derived from the voter-approved tax increase in 2011), while not legally restricted, are used to pay the City's lease payments relating to the debt service on the Authority's Lease Revenue Bonds, 2012 Series B, issued to fund the City's contribution to the Downtown Palm Springs development, as well as City-wide capital projects. However, the revenues of the Measure J Fund are available for purposes of the General Fund. The City has determined to show the Measure J Fund as a separate capital projects fund for financial reporting purposes. See "FINANCIAL INFORMATION - Financial Statements" herein). For the purposes of Table No. 9, the Measure J Fund fund balance is not combined with the General Fund.

### **Budget and Actual Comparisons**

A comparison of the actual results for Fiscal Years 2014/15 and 2015/16, the estimated actual results for Fiscal Year 2016/17 and the Fiscal Year 2017/18 preliminary Budget is shown in Table No. 9. Historical General Fund and Measure J Fund activity is shown in Table Nos. 26 and 27.

The largest changes in revenue and expenditure estimates between the Fiscal Year 2017/18 preliminary budget and the Fiscal Year 2016/17 estimates result from:

- Continued measured growth between 2% and 4% in sales tax and transient occupancy tax (see "Economic Conditions and Outlook - Property Tax," "- Sales Tax" and "- Transient Occupancy Tax");
- \$1,250,000 fee increases for vacation rental permits, offset by an increase in costs to monitor vacation rentals (included in General Government expenditures);
- \$240,000 increase in transient occupancy tax incentives, which were reclassified from offsetting revenue to an expense of the Community Development department (included in General Government expenditures);
- Approximately \$1 million increase (included in General Government expenditures) for insurance and utility costs;
- \_\_\_\_\_ increase for employee costs for PERS increases and other employee benefits; and
- Addition of personnel in Fire, Police and Public Works Departments.

**TABLE NO. 9  
CITY OF PALM SPRINGS  
GENERAL FUND REVENUES AND EXPENDITURES**

	2014/15	2015/16	2016/17	2017/18	\$	%
	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Preliminary Budget</u>		
<b>Revenues:</b>						
Taxes <sup>(2) (4)</sup>	\$ 83,178,285	\$ 85,811,748	\$ 90,390,389	\$ 92,687,517	\$2,297,128	2.5%
Licenses and Permits	3,352,034	3,652,263	3,755,000	4,875,000	1,120,000	29.8
Intergovernmental <sup>(3)</sup>	4,450,902	4,810,493	4,485,000	4,552,000	67,000	1.5
Charges for Services	5,680,862	5,913,898	6,028,253	5,668,094	(360,159)	(6.0)
Use of Money and Property	345,394	307,375	366,000	317,500	(48,500)	(13.3)
Miscellaneous	<u>287,380</u>	<u>317,938</u>	<u>190,600</u>	<u>203,824</u>	<u>13,224</u>	6.9
Subtotal	97,294,857	100,813,715	105,215,242	108,303,935	3,013,693	2.9
Transfers In	<u>887,500</u>	<u>887,500</u>	<u>887,500</u>	<u>887,500</u>	-	0.0
Total Revenues	98,182,357	101,701,215	106,102,742	109,191,435	3,088,693	2.9%
<b>Expenditures:</b>						
General Government <sup>(4)</sup>	12,152,043	13,713,652	15,339,363	16,570,278	1,230,915	8.0%
Public Safety	34,854,927	36,241,536	41,133,721	42,864,739	1,731,018	4.2
Cultural and Convention Center	3,066,359	3,070,145	6,190,650	6,364,650	174,000	2.8
Parks and Recreation	7,336,767	7,211,162	6,834,192	6,983,779	149,587	2.2
Public Works	9,474,651	10,260,351	11,545,166	11,704,314	159,148	1.4
Library	2,407,766	2,559,897	2,779,222	2,865,439	86,217	3.1
Debt Service	<u>4,579,770</u>	<u>4,684,919</u>	<u>4,692,220</u>	<u>4,692,220</u>	-	0.0
Subtotal	73,872,283	77,741,662	88,514,534	92,045,419	3,530,855	4.0
Transfers Out - Measure J Fund <sup>(2)</sup>	12,854,984	12,461,899	12,900,000	13,400,000	500,000	3.9
Transfers Out -Other Funds	<u>8,979,678</u>	<u>7,802,657</u>	<u>3,854,378</u>	<u>4,093,462</u>	<u>239,084</u>	6.2
Total Expenditures	95,706,945	98,006,218	105,268,912	109,538,881	4,269,969	4.1%
Net Change in Fund Balances	2,475,412	3,694,997	833,830	(347,446)		
Beginning Unassigned Fund Balance	13,199,370	14,985,654	18,545,979	19,379,809		
Change in Restricted/Assigned Fund Balance <sup>(4)</sup>	<u>(689,128)</u>	<u>(134,672)</u>	-	-		
Ending Unassigned Fund Balance	<u>\$ 14,985,654</u>	<u>\$ 18,545,979</u>	<u>\$ 19,379,809</u>	<u>\$ 19,032,363</u>		

<sup>(1)</sup> Change between 2016/17 estimated actual and 2017/18 preliminary budget.

<sup>(2)</sup> Includes voter-approved sales taxes transferred to the City's Measure J Sales Tax Capital Projects Fund. See "Local Taxes" below.

<sup>(3)</sup> For financial statement presentation (see Table No. 23) motor vehicle license fees are included in Intergovernmental revenues, but for budget presentation are included in Taxes. See "Motor Vehicle License Fees" and Table No. 15 below.

<sup>(4)</sup> Prior to 2016/17, the transient occupancy tax hotel incentive payments were used to offset revenue. Beginning in Fiscal Year 2016/17, such amounts are included as an expenditure in the General Government expenditure category.

Source: City of Palm Springs.

## 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 to a \$20 cost on the second installment. On July 1 of each fiscal year any property which is delinquent will become defaulted. 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, together with any other charges permitted by law. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

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 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. 10 are historical assessed valuations for secured and unsecured property within the City. 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 saw significant Proposition 8 reductions in property values between 2008 and 2012, reducing assessed value by over 13%. After remaining level in Fiscal Year 2012/13, assessed values have continued to increase each year thereafter. See "RISK FACTORS - Constitutional Limitation on Taxes and Expenditures - Article XIII A" and "- Proposition 8 Adjustments" herein.

**TABLE NO. 10  
CITY OF PALM SPRINGS  
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY**

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>	<u>% Change</u>
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	4.4%
2009/10	9,212,511,984	517,770,317	9,730,282,301	(5.4)
2010/11	8,633,812,919	523,017,706	9,156,830,625	(5.9)
2011/12	8,355,843,908	552,198,136	8,908,042,044	(2.7)
2012/13	8,434,428,737	554,896,889	8,989,325,626	0.9
2013/14	8,755,943,947	531,713,706	9,287,657,653	3.3
2014/15	9,407,784,047	512,996,273	9,920,780,320	6.8
2015/16	10,170,030,868	492,015,648	10,662,046,516	7.5
2016/17	10,827,168,154	510,034,381	11,337,202,535	6.3

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.

Source: County of Riverside Auditor-Controller.

**Largest Taxpayers.** The principal property taxpayers for Fiscal Year 2015/16 are as shown in Table No. 11.

**TABLE NO. 11  
CITY OF PALM SPRINGS  
LARGEST PROPERTY TAXPAYERS**

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percent of Total</u>
Tenet Health System Desert Inc.	\$112,146,240	1.05%
Mountain View Power Partners I	64,884,953	0.61
TKG Smoke Tree Commons LLC	62,913,902	0.59
Windpower Partners 1993 LP	59,641,193	0.56
Riviera Reincarnate	55,065,074	0.51
Endure Inv.	49,249,639	0.46
Palm Springs Art Museum	42,796,231	0.40
HH Palm Springs	40,827,988	0.38
Skywest Airlines Inc.	37,349,972	0.35
Walmart Real Estate Business Trust	<u>32,587,017</u>	<u>0.30</u>
	\$557,462,209	5.21%

Source: City of Palm Springs.

**Property Tax Collections.** Property tax levies and collections for the City are set forth in Table No. 12. The County has adopted the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. The County has the power to unilaterally discontinue the Teeter Plan. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies.

**TABLE NO. 12  
CITY OF PALM SPRINGS  
SECURED TAX LEVIES AND COLLECTIONS <sup>(1)</sup>**

<b>Fiscal Year Ended</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collections within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Tax Collections</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Tax Collections</b>	<b>Percentage of Levy</b>
2012	\$31,699,331	\$26,581,718	83.86%	\$1,613,650	\$28,195,368	88.95%
2013	34,832,425	27,301,032	78.38	1,440,591	28,741,623	82.51
2014	35,213,010	33,764,807	95.89	1,432,979	35,197,786	99.96
2015	34,215,678	32,782,699	95.81	1,452,247	34,234,946	100.06
2016	38,459,265	37,007,018	96.22	1,635,157	38,642,175	100.48

<sup>(1)</sup> Includes City property taxes and redevelopment agency tax increment, prior to any passthroughs to other agencies.

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

**Redevelopment - Related Property Tax Considerations.** The California Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State) authorized 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 was formed. In effect, local taxing authorities, such as the City, realized tax revenues only on the assessed value of such property at the time the redevelopment project was created for the duration of such redevelopment project. Although Assembly Bill No. 26 (“AB X1 26”), enacted on June 29, 2011 as Chapter 5 of Statutes of 2011, statutorily dissolved redevelopment agencies as of February 1, 2012, the enforceable obligations of dissolved redevelopment agencies continue to be paid from property taxes derived from such incremental value until the enforceable obligations are paid in full in accordance with Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (as such statutory provisions may be amended from time to time the “Dissolution Act”).

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.



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

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>Redevelopment Agency Incremental Value</u>	<u>Net Value</u>	<u>Percent Change</u>
2012/13	\$ 8,989,325,626	\$1,490,615,195	\$7,498,710,431	
2013/14	9,287,657,653	1,504,251,239	7,783,406,414	3.8%
2014/15	9,920,780,320	1,618,736,880	8,302,043,440	6.7
2015/16	10,662,046,516	1,776,465,165	8,885,581,351	7.0
2016/17	11,337,202,535	1,941,530,893	9,395,671,642	5.7

Source: County of Riverside Auditor-Controller.

In the first year after redevelopment agencies were statutorily dissolved, the Dissolution Act established a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controller for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process is commonly known as the “due diligence review process” and was required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Generally, redevelopment agencies were required to remit to their respective county auditor-controller the amount of unobligated balances determined by the State Department of Finance. In turn, such remitted unobligated balances were distributed to taxing entities within the applicable redevelopment project area (including the City with respect to Merged Redevelopment Project No. 1 and Merged Redevelopment Project No. 2) in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year.

The Dissolution Act also provides for proceeds of the sale of land owned by redevelopment agencies at the time of their statutory dissolution to be remitted to the applicable county auditor-controller for distribution to the affected taxing entities within the applicable redevelopment project area (including the City with respect to Merged Redevelopment Project No. 1 and Merged Redevelopment Project No. 2) in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year.

Further, under the Dissolution Act, taxing entities within Merged Redevelopment Project No. 1 and Merged Redevelopment Project No. 2, such as the City, are to receive distributions (in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year) of residual amounts of property taxes attributable to incremental value of Merged Redevelopment Project No. 1 and Merged Redevelopment Project No. 2 on each June 1 and January 2, after payment of: (i) tax sharing obligations established previously pursuant to the Community Redevelopment Law, (ii) enforceable obligations of the successor agency to the former redevelopment agency, and (iii) an administrative cost allowance to such successor agency. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time.

The table below summarizes the distributions received by the City of its share of (i) unobligated balances determined pursuant to the due diligence review process described above, (ii) proceeds of the sale of land owned by the City’s redevelopment agency at the time of its dissolution, and (iii) residual amounts of property taxes derived from the Merged Redevelopment Project No. 1 and Merged Redevelopment

Project No. 2 since the statutory dissolution of the City’s redevelopment agency on February 1, 2012. These amounts are shown as residual property tax revenues in Table 15.

**TABLE NO. 14  
CITY OF PALM SPRINGS  
CITY SHARE OF DUE DILIGENCE REVIEW PROCEEDS, LAND SALE PROCEEDS, AND RESIDUAL  
PROPERTY TAXES ATTRIBUTABLE TO THE REDEVELOPMENT PROJECTS**

<u>Fiscal Year</u>	<u>Residual Property Taxes</u>	<u>Land Sale/Due Diligence Review Proceeds</u>	<u>Total</u>
2012-13	\$ 229,366	\$1,753,058	\$1,982,424
2013-14	1,079,140	1,852,012	2,931,152
2014-15	2,049,295	-	2,049,295
2015-16	1,718,152	-	1,718,152
2016-17 <sup>(1)</sup>	1,500,000	-	1,500,000
2017-18 <sup>(2)</sup>	1,500,000	-	1,500,000

<sup>(1)</sup> Estimated.

<sup>(2)</sup> 2017-18 Preliminary Budget.

Source: City of Palm Springs and Successor Agency to the Palm Springs Community Redevelopment Agency, based on information compiled from Riverside County Auditor-Controller.

## 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 218” 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. On November 8, 2011, voters in the City approved “Measure J,” the levy of an additional 1% sales tax for a 25-year term, commencing April 1, 2012. This new sales tax effectively doubled the amount of sales tax received by the City starting in Fiscal Year 2012/13. The City’s policy is to use the additional sales tax to service the debt that was issued to fund improvements relating to its downtown revitalization project, as well as other City-wide capital projects.

The City also receives a portion of a permanent statewide ½ cent sales tax increase approved by voters in 1993 by Proposition 172, which is recorded in the City’s Safety Augmentation Special Revenue Fund. Sales tax generated by this increase is used to offset certain expenses for public safety.

**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%. There is no time limit established for the collection of the transient occupancy tax.

More than \$200 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 adjacent to the Convention Center), the 194-suite Hyatt Regency Suites, the 260-room Hilton Hotel and the 410-room Riviera Resort & Spa. In addition, the Hard Rock Hotel purchased a 163-room existing hotel and completed extensive remodeling. In 2007, the City established a Transient Occupancy Tax Hotel Incentive Reimbursement Program that refunds a portion of the transient occupancy tax to a hotel for a period of ten years for qualified new construction or significantly renovated hotels.

**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 was unaffected and remains at 5%.

In Table No. 15, the amounts credited against transient occupancy tax for fiscal years prior to 2016-17 for the Hotel Incentive Reimbursement Project are shown as an offset to transient occupancy taxes. Because of accounting changes beginning in 2016-17, such payments are included as an expense rather than an offset to revenue.

**Access Line Tax.** Also in November 2009, the voters approved an access line tax ("ALT") in lieu of the emergency response fee that the City had previously levied for the purpose of funding improvements to and operation of the City's 9-1-1 emergency communications system. The ALT is collected by telecommunications providers and remitted to the City monthly. The ALT 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 emergency communications equipment. The access line tax is not included in Table No. 15 below.

**Medical Cannabis Tax.** In November 2013, voters approved a ballot measure, allowing the City to choose to tax medical cannabis dispensaries up to 15% of their revenue. The current tax rate is 10%, and the tax commenced January 1, 2014.

**Other Taxes.** Includes the documentary stamp tax which is assessed for recordation of real property transfers, PEG fees, new development tax and parking tax.

A history of actual tax revenue by source are shown, together with estimates for Fiscal Year 2016-17 and the preliminary budget for Fiscal Year 2017-18 in the following table.

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

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>Estimate 2016/17</u>	<u>Estimate 2017/18</u>	<u>% of General Fund Revenues</u>
Property Tax	\$16,672,589	\$18,065,541	\$18,990,554	\$20,505,840	\$22,110,000	\$22,950,000	21.0%
Successor Agency Residual Property Tax <sup>(1)</sup>	1,982,424	2,931,152	2,049,295	1,739,523	1,500,000	1,500,000	1.4%
Sales and Use Tax <sup>(2)</sup>	10,902,013	10,996,522	10,542,266	12,350,499	12,128,389	12,375,517	11.3%
Sales and Use Tax-Measure J <sup>(3)</sup>	11,046,045	12,623,919	11,643,884	12,461,899	12,900,000	13,400,000	12.3%
Franchise Tax	3,024,692	3,111,067	2,705,304	3,143,452	3,100,000	3,200,000	2.9%
Transient Occupancy Tax	19,582,331	22,711,674	26,610,581	27,044,526	28,820,000	29,660,000	27.2%
TOT Hotel Incentive Payments <sup>(4)</sup>	(186,000)	(466,000)	(1,000,000)	(1,230,000)	-	-	
Utility User Tax	7,093,712	7,154,521	7,374,612	7,082,024	7,050,000	7,200,000	6.6%
Medical Cannabis Tax <sup>(5)</sup>	-	492,974	1,143,144	1,449,783	1,450,000	1,450,000	1.3%
Other Taxes	<u>1,046,078</u>	<u>1,190,328</u>	<u>1,271,044</u>	<u>1,264,202</u>	<u>1,332,000</u>	<u>952,000</u>	<u>0.9%</u>
<b>Total General Fund Tax Revenues</b>	<b>\$71,163,884</b>	<b>\$78,811,698</b>	<b>\$81,330,684</b>	<b>\$85,811,748</b>	<b>\$90,390,389</b>	<b>\$92,687,517</b>	<b>84.9%</b>
Property Tax In Lieu of VLF <sup>(6)</sup>	<u>3,513,005</u>	<u>3,653,337</u>	<u>3,920,259</u>	<u>4,190,282</u>	<u>4,200,000</u>	<u>4,275,000</u>	<u>3.9%</u>
<b>Total Budgeted Taxes with VLF</b>	<b><u>\$74,676,889</u></b>	<b><u>\$82,465,035</u></b>	<b><u>\$85,250,943</u></b>	<b><u>\$90,002,030</u></b>	<b><u>\$94,590,389</u></b>	<b><u>\$96,962,517</u></b>	<b>88.8%</b>

<sup>(1)</sup> The City received certain one-time property tax as a result of redevelopment dissolution, and will receive its share of certain ongoing Successor Agency residual property tax revenue.

<sup>(2)</sup> Net of \$400,000 prior years' sales tax withholding in 2013/14 for State correction of a misallocation of revenue to Palm Springs from a particular business located outside of the City.

<sup>(3)</sup> City voters approved an additional 1% City sales tax, which commenced in April 2012.

<sup>(4)</sup> The City's payments under the hotel incentive program were used to offset revenues prior to 2016-17, but due to an accounting change are recorded as an expense. The TOT incentive payments are estimated to be \$1,620,000 for Fiscal Year 2016-17 and \$1,860,000 for Fiscal Year 2017-18. See "Local Taxes - Transient Occupancy Tax."

<sup>(5)</sup> In November 2013 voters approved a ballot measure, allowing the City to choose to tax medical cannabis dispensaries. The tax commenced January 1, 2014.

<sup>(6)</sup> The City budgets property tax paid in-lieu of VLF in "Taxes" for budget purposes, but they are recorded in the financial statements as "Intergovernmental Revenue." See "Motor Vehicle License Fees" below. "Taxes" in Table No. 9 exclude these amounts for comparison purposes with the financial statements.

Source: City of Palm Springs.

## Motor Vehicle License Fees

The City receives a portion of Department of Motor Vehicles license fees (“VLF”) collected statewide. The total VLF budgeted for Fiscal Year 2017/18 is \$4,275,000 (3.9% of Fiscal Year 2017/18 projected revenue), all of which 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, these amounts are shown as “Intergovernmental Revenues” and for comparison purposes, have been shown in Table No. 9 as “Intergovernmental Revenues” as well. Although the VLF is shown in Table No. 15 in all years as “Property Tax In Lieu of VLF” for comparison purposes, the property tax portion of the VLF was phased in over several years.

## Other Revenue Sources

**Intergovernmental Revenues.** These revenues consist of Proposition 172 sales tax, payments in-lieu of property tax from the State homeowners’ relief exemption, and payments from the Agua Caliente Band of Cahuilla Indians under a Casino Agreement, as well as their contribution to the City’s tourism budget.

**Licenses and Permits.** These revenues consist primarily of business licenses, building construction permit fees, and zoning and subdivision fees, vacation rental permits and other permits.

**Use of Money and Property.** These revenues consist primarily of investment earnings and rental income.

**Charges for Services.** The City charges fees for dispatch services and alarm response, plan checking, building inspection and other municipal services. The City also collects fees for its recreation programs. These revenues also include library fines, parking citations, false fire alarm fees and other fines for municipal code violations.

## Employee Relations and Collective Bargaining

City employees are represented by 6 labor unions and associations. Currently 94% of all City employees are covered by negotiated agreements. All current agreements cover the period July 1, 2014 through June 30, 2018. The current agreements provide for salary increases by bargaining unit as shown below:

<b>Bargaining Unit</b>	<b>Salary Increases</b>				
	<b>7/1/2014</b>	<b>7/1/2015</b>	<b>7/1/2016</b>	<b>7/1/2017</b>	<b>6/30/2018</b>
Management and Professional	8%	2%	-	2%	-
General	8%	2%	-	2%	-
Police Management	13%	-	2%	-	1%
Police Safety	13%	-	1%	-	1%
Fire Management	9%	2%	-	1%	-
Fire Safety	9%	2%	-	1%	-

## Pension Plans

*This caption contains certain information relating to the California Public Employees Retirement System (“CalPERS”). The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.*

*The comprehensive annual financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.*

**Plan Description.** The City provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the "Plans"). The Plans are part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and by City contracts with employee bargaining groups. The Plans as described herein covers two separate employee groups - Miscellaneous and Public Safety.

**California Public Employees' Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which made changes to CalPERS Plans, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For non-safety CalPERS participants hired after the Implementation Date, PEPRA changed the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increased the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary to a maximum of 8% of salary, (ii) requires CalPERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in Social Security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

**Benefit Tiers.** In 2011 the City established two tiers of benefits for employees in each of the employee plans, based on date of hire ("Tier 1" and "Tier 2"). Benefits were reduced for Tier 2 employees hired on or after January 1, 2011.

Due to PEPRA, the City added a benefit tier in each employee group for employees subject to PEPRA ("PEPRA Tier"). Ultimately, PEPRA is expected to reduce the City's long-term pension obligation as existing employees retire and new employees are hired to replace them.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier</u>
Benefit Formula	2.7% at 55	2% at 60	2% at 62
Benefit Vesting Schedule	5 years	5 years	5 years
Earliest Retirement Age	50	50	52
Maximum Benefit Factor	2.0% to 2.70%	2.0% to 2.70%	1.0% to 2.5%
Final Compensation	12 months	36 months	36 months
Required Employee Contribution Rates	8.0%	7.0%	6.75%
Required Employer Contribution Rates	25.330%	25.330%	25.330%

	<u>Safety Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier</u>
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	3.0%	3.0%	2.0% to 2.7%
Final Compensation	12 Months	12 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	11.50%
Required Employer Contribution Rates	41.476%	41.476%	41.476%

**Funding Policy.** Active members in the Plans are required to contribute a percent of their annual covered salary as shown in the charts above. All employees pay their own employee contributions towards retirement.

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability.** The total pension liabilities in the June 30, 2014 actuarial valuations, rolled forward to June 30, 2015, using standard update procedures, were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>	
Inflation	2.75%
Projected Salary Increase	Varies <sup>(1)</sup>
Payroll Growth	3.00%
Investment Rate of Return	7.65% <sup>(2)</sup>
Mortality	<sup>(3)</sup>

<sup>(1)</sup> Varies by entry age and service.

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(3)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 Experience Study.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study (“Experience Study”) for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

**Recent Changes in Actuarial Assumptions.** On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.50%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 3% and an annual production growth of 0.25%. Although the full impact of such changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%.

On April 17, 2013, the CalPERS Board of Administration approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS’ Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the City about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS’ Fiscal Year 2009 market losses) of the City’s plans in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes are reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter.

On February 19, 2014, the CalPERS Board approved changes to actuarial assumptions and methods based upon a recently completed experience study. These changes include: moving from using smoothing of the market value of assets to obtain the actuarial value of assets to direct smoothing of employer contribution rates; increased life expectancy; changes to retirement ages (earlier for some groups and later for others); lower rates of disability retirement; and other changes.

On December 21, 2016, the CalPERS Board of Administration approved an incremental lowering of the discount rate from 7.5% to 7.0% over the next three Fiscal Years. For Fiscal Years 2017/18, 2018/19 and 2019/20, the Board of Administration approved discount rates of 7.375%, 7.25% and

7.0%, respectively. While the full impact of the discount rate changes on the City is not yet clear, CalPERS expects such changes to increase average employer rates by approximately 1% to 3% of normal cost as a percent of payroll for most miscellaneous retirement plans and by approximately 2% to 5% for most safety plans. CalPERS also expects the discount rate changes to result in increased unfunded accrued liability payments for employers, and estimates that many employers will see such payments increase by 30% to 40%.

**Contribution Rates.** The contribution requirements of Plan members and the City are established by CalPERS.



The City's percentage of payroll for CalPERS payments for Fiscal Years 2010/11 through 2016/17 are shown in Table No. 16. These rates do not include the employees' contribution rates. They include both the employer's normal cost and an unfunded actuarial liability rate.

**TABLE NO. 16  
HISTORICAL EMPLOYER RETIREMENT CONTRIBUTION RATES**

<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety Plans</u>
2010/11	14.910%	24.626%
2011/12	19.430	30.822
2012/13	18.800	32.959
2013/14	20.494	34.075
2014/15	23.068	38.630
2015/16	25.330	41.476
2016/17	26.958	46.204

CalPERS modified the calculation of the contribution rates beginning in Fiscal Year 2017/18. They now represent only the employer's normal cost as a percentage of payroll, and include a dollar amount for the amortization of the unfunded actuarial liability (UAL). Shown in Table No. 17 are the CalPERS projections of the normal cost and amortization of the UAL. For comparison, the normal cost for 2016/17 for the Miscellaneous Plan was 12.159% and for the Safety Plan was 19.376% of payroll.

**TABLE NO. 17  
PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS**

<u>Fiscal Year</u>	<u>Miscellaneous</u>		<u>Safety Plan</u>	
	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>
2017/18	11.369%	\$3,435,001	18.858%	\$4,430,117
2018/19	11.400	4,140,958	18.900%	5,383,467
2019/20	11.400	4,886,179	18.900%	6,390,029
2020/21	11.400	5,329,717	18.900%	7,009,745
2021/22	11.400	5,799,597	18.900%	7,653,199

Projected by CalPERS based on various assumptions as of August 2016, does not reflect change in the discount rate approved in December 2016.

Source: California Public Employees' Retirement System.

**Annual Pension Costs.** A five-year history of the City's required annual pension costs is shown in the table below. The required contribution was determined as part of an annual actuarial valuation. The most recent actuarial assumptions are described under the caption "Actuarial Methods and Assumptions Used to Determine Total Pension Liability."

**TABLE NO. 18**  
**FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION COSTS**  
**ALL TIERS COMBINED**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>
2011/12	
2012/13	
2013/14	
2014/15	
2015/16	

**Pension Liabilities.** The City's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2015, using the annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's changes in net pension liability for the Plans between June 30, 2014 and 2015 was as follows:

**TABLE NO. 19**  
**NET PENSION LIABILITY BY PLAN**

	<b>Miscellaneous Plan</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
Balance at: 6/30/2014 (Valuation Date) <sup>(1)</sup>	\$195,448,394	\$149,471,548	\$45,976,846
Changes Recognized for the Measurement Period:			
Service Cost	3,638,462	-	3,638,462
Interest on the Total Pension Liability	14,462,203	-	14,462,203
Changes of Assumptions	(3,373,293)	-	(3,373,293)
Difference between Expected and Actual Experience	165,779		165,779
Plan to Plan Resource Management	-	123	(123)
Contribution from the Employer	-	4,332,593	(4,332,593)
Contributions from Employees	-	1,635,767	(1,635,767)
Net Investment Income <sup>(2)</sup>	-	3,336,784	(3,336,784)
Benefit Payments including Refunds of Employee Contributions	(10,023,409)	(10,023,409)	-
Administrative Expense	-	(167,261)	167,261
Net Changes During 2014/15	<u>4,869,742</u>	<u>(885,403)</u>	<u>5,755,145</u>
Balance at: 6/30/2015 (Measurement Date) <sup>(1)</sup>	<u>\$200,318,136</u>	<u>\$148,586,145</u>	<u>\$51,731,991</u>

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

<sup>(2)</sup> Net of administrative expenses.

	<b>Safety Plan</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
Balance at: 6/30/2014 (Valuation Date) <sup>(1)</sup>	\$228,270,186	\$165,220,693	\$ 63,049,493
Changes Recognized for the Measurement Period:			
Service Cost	3,579,202	-	3,579,202
Interest on the Total Pension Liability	16,817,588	-	16,817,588
Difference between Expected and Actual Experience	207,093	-	207,093
Changes of Assumptions	(4,117,429)	-	(4,117,429)
Contribution from the Employer	-	5,272,145	(5,272,145)
Contributions from Employees	-	1,348,094	(1,348,094)
Net Investment Income <sup>(2)</sup>	-	3,617,828	(3,617,828)
Benefit Payments including Refunds of Employee Contributions	(12,623,417)	(12,623,417)	-
Administrative Expense	-	(183,062)	183,062
Net Changes During 2014/15	<u>3,863,037</u>	<u>(2,568,412)</u>	<u>6,431,449</u>
Balance at: 6/30/2015 (Measurement Date) <sup>(1)</sup>	<u>\$232,133,223</u>	<u>\$162,652,281</u>	<u>\$ 69,480,942</u>

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

<sup>(2)</sup> Net of administrative expenses.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City's net pension liability, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
Net Pension Liability 1% Decrease in Discount Rate to 6.5%	\$80,165,706	\$110,503,188
Net Pension Liability at June 30, 2015 Discount Rate of 7.5%	\$54,434,918	\$78,021,513
Net Pension Liability 1% Increase in Discount Rate to 8.5%	\$33,076,569	\$51,415,830

See Note 7 of the City's Comprehensive Annual Financial Report included in "APPENDIX B" for further information about the Plan.

## 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 450 eligible active employees and 179 enrolled eligible retirees at June 30, 2016. 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 the last four fiscal years, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

**TABLE NO. 20  
CITY OF PALM SPRINGS  
ANNUAL OPEB AND NET OPEB CONTRIBUTION**

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Annual required contribution	\$ 6,919,257	\$ 7,354,035	\$ 7,318,721	\$ 7,775,069
Interest on net OPEB obligation	809,984	988,601	1,178,009	2,423,749
Adjustment to annual required contribution	<u>(885,376)</u>	<u>(1,119,908)</u>	<u>(1,422,967)</u>	<u>(4,078,507)</u>
Annual OPEB cost (expense)	6,843,865	7,222,728	7,073,763	6,120,311
Contributions made (including premiums paid)	<u>(2,378,429)</u>	<u>(2,487,553)</u>	<u>(2,827,548)</u>	<u>(1,757,362)</u>
Increase in net OPEB obligation	4,465,436	4,735,175	4,246,215	4,362,949
Net OPEB obligation-beginning of year	<u>20,249,594</u>	<u>24,715,030</u>	<u>29,450,205</u>	<u>33,696,420</u>
Net OPEB obligation-end of year	<u>\$24,715,030</u>	<u>\$29,450,205</u>	<u>\$33,696,420</u>	<u>\$38,059,369</u>

Source: City of Palm Springs Comprehensive Annual Financial Report.

The City's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for Fiscal Years 2011/12 through 2015/16, and the net OPEB obligation as of June 30, 2012 through June 30, 2016 were as follows:

**TABLE NO. 21  
CITY OF PALM SPRINGS  
OPEB COSTS AND NET OPEB CONTRIBUTION**

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011/12	\$6,859,855	23.3%	\$20,249,594
2012/13	6,843,865	34.8	24,715,030
2013/14	7,222,728	34.4	29,450,205
2014/15	7,073,763	39.9	33,696,420
2015/16	6,120,311	28.7	38,059,369

Source: City of Palm Springs Comprehensive Annual Financial Report.

**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.

**TABLE NO. 22**  
**SCHEDULE OF FUNDING PROGRESS <sup>(1)</sup>**

<b>Actuarial Valuation Date</b>	<b>Entry Age Actuarial Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/09	\$ 77,025,425	\$ -	\$ 77,025,425	0%	\$31,245,000	246.5%
6/30/11	99,590,050	-	99,590,050	0	26,309,954	378.5
6/30/13	106,506,259	-	106,506,259	0	34,035,753	312.9
6/30/15	107,153,093	-	107,153,093	0	30,169,887	355.2

<sup>(1)</sup> Next required valuation as of June 30, 2017 has not yet been prepared.

Source: City of Palm Springs Comprehensive Annual Financial Report.

**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 most recent actuarial assumptions included a 4.0% investment rate of return, which is based on assumed long-term investment returns on plan assets, and an annual healthcare cost trend rate of 8.0%, graded down by 0.5% per year to an ultimate rate of 6.0%. 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, 2016 is 23 years. It is assumed the City's payroll will increase 3.25% per year.

## 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 any 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 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, 2013 and June 30, 2014, claims and judgments payable, including estimated claims for incurred but not reported claims, amounted to \$4,819,043 and \$5,053,838, respectively.

The City's property insurance coverage covers real property and business personal property including permanent fixtures and business contents. The Citywide limit of coverage for all facilities is replacement cost, up to a total insured value of \$468,131,460, with a \$10,000 deductible. Earthquake and flood damage are excluded from this coverage. The City has Difference In Conditions coverage in place including earthquake and flood for all facilities other than the City's Waste Water Treatment Plant for \$5 million per occurrence subject to a \$100,000 deductible or 5% of the total insured value (on a replacement cost basis) at the time of loss per location, whichever first reaches the \$100,000 deductible. The City's Difference In Conditions coverage for Waste Water Treatment Plant has a total insurable value limit of \$25 million per occurrence subject to a \$100,000 deductible or 5% of the total insured value (on a replacement cost basis) at the time of loss per location, whichever first reaches the \$100,000 deductible.

### **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 dated May 7, 2014, 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, Bonds issued by the State of California or local agencies within the State, Bankers' Acceptances, Commercial Paper, Negotiable Certificates of Deposit, Medium-Term Notes, Mutual Funds and Money Market Mutual Funds, Time Deposits and Local Agency Investment Fund.

As of March 31, 2017, the market value of the City Treasurer's investment portfolio (excluding funds deposited in checking accounts) was \$\_\_\_\_\_. 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. Agency Securities	
CalTrust Mutual Fund	
Local Agency Investment Fund	
Time Deposits	
	100.0%

The weighted average maturity of the investment portfolio was \_\_\_\_ days.

## Obligations of the City

Except as noted below, in addition to the Bonds, the City will have the following outstanding indebtedness as of June 30, 2017 payable from the City's General Fund, exclusive of obligations to be paid from specifically pledged revenues, such as Measure A sales tax revenue Bonds and other revenue bonds, tax allocation bonds and assessment bonds. It includes obligations that the City allocates internally to other special revenue funds, as described below.

<u>Category of Obligation</u>	<u>Original Issue</u>	<u>June 30, 2017</u>	
		<u>Amount Outstanding</u>	<u>Final Maturity</u>
(1) 2007 Pension Obligation Bonds	\$19,832,588	\$18,933,069	2035
(2) 2007 Lease Revenue Bonds	20,365,000	-	2027
(3) 2012 Series A Lease Revenue Bonds	23,980,000	17,835,000	2026
(4) 2012 Series B Lease Revenue Bonds	44,965,000	38,575,000	2035
(5) 2014 Series A Lease Revenue Refunding Bonds	45,550,000	43,060,000	2035
(6) 2015 Lease Revenue Refunding Bonds	5,680,000	5,555,000	2027
(7) Capital Leases - Vehicles	913,648	130,061	2018
(8) Capital Lease - Communications Equipment	3,366,478	792,558	2019
(9) Capital Lease - Energy Conservation	18,402,793	17,444,632	2033
(10) Capital Lease - Golf Carts			
(11) Note Payable	490,000	236,622	2020
(12) Compensated Absences	7,001,536	7,001,536	N/A

- (1) 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 \$1,215,000 in Fiscal Year 2014/15 and increase annually by approximately 4% per year. The outstanding balance above includes the accreted value of capital appreciation bonds.
- (2) To be refunded with the proceeds of the Bonds and other available amounts. See "THE FINANCING PLAN" herein.
- (3) The 2012 Series A Lease Revenue Bonds were issued to refinance prior obligations relating to the City's Convention Center. Together with the debt service on the 2014 Series A Bonds, annual lease payments are approximately \$4.8 million.
- (4) The 2012 Series B Lease Revenue Bonds were issued to finance improvements relating to the City's downtown revitalization plan. Lease payments are approximately \$3.2 million annually, and are allocated and paid from Measure J sales tax funds (see "FINANCIAL INFORMATION - Local Taxes").
- (5) The 2014 Series A Lease Revenue Refunding Bonds were issued to refinance prior obligations relating to the City's Convention Center. Together with the debt service on the 2012 Series A Bonds, annual lease payments are approximately \$4.8 million.
- (6) The 2015 Lease Revenue Refunding Bonds were issued to refinance the City's 2002 Certificates of Participation. Annual Lease payments are approximately \$554,000 in 2017/18, increasing to approximately \$727,000 in 2027/28.

- (7) The City has entered into a lease agreement to finance the acquisition of a fire truck. Annual lease payments are approximately \$131,000. The lease payments relating to fire truck are paid from the City's Motor Vehicle Replacement Fund.
- (8) The City has entered into a lease agreement to finance the acquisition of emergency communications equipment. Annual lease payments are approximately \$422,000. 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).
- (9) (for Golf Cart Lease)
- (10) The City has entered into a lease agreement to finance the acquisition and installation of energy and water conservation equipment and replacement of the cooling tower in the City's Co-Generation Plant. Annual lease payments are approximately \$280,000 in Fiscal Year 2014/15, \$1,046,000 in Fiscal Year 2016/17 and increase annually by approximately 4% per year. The lease payments relating to the cooling tower replacement are paid by the City's Co-Generation Plant Internal Service Fund, of which approximately 50% is paid by the Airport.
- (11) The City has entered into a note payable to Chino Cinego Foundation for the purchase of property. Annual payments are \$89,342.
- (12) Represents that portion of compensated absences not expected to be paid during the current year, as of June 30, 2016.



## Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by Muni Services LLP, as of June 30, 2016. 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. 23  
CITY OF PALM SPRINGS  
DIRECT AND OVERLAPPING DEBT**

City Assessed Valuation		\$9,981,059,009	
	<b>Percentage Applicable <sup>(1)</sup></b>	<b>Outstanding Debt 6/30/16</b>	<b>Estimated Share of Overlapping Debt</b>
<b>Overlapping Debt Repaid with Property Taxes:</b>			
Desert Community College District	14.989%	\$ 283,391,384	\$ 42,477,535
Mt. San Jacinto Community College District General Fund Obligation	0.006%	70,000,000	4,200
Banning Unified School District	0.167%	41,211,999	68,824
Palm Springs Unified School District	41.052%	340,580,707	139,815,192
San Geronio Memorial Hospital District	0.061%	114,135,000	69,622
Riverside County Assessment District No. 167	100%	145,000	145,000
City of Palm Springs 1915 Act Bonds	100%	6,225,000	6,225,000
California Statewide Communities Development Authority 1915 Act Bonds	100%	<u>690,004</u>	<u>690,004</u>
<b>Total Overlapping Debt Repaid with Property Taxes</b>		<u>856,379,094</u>	<u>189,495,377</u>
<b>Direct and Overlapping General Fund Debt:</b>			
Riverside County General Fund Obligations	4.500%	889,831,745	40,042,429
Riverside County Pension Obligations	4.500%	304,520,000	13,703,400
Riverside County Board of Education Certificates of Participation	4.500%	935,000	42,075
City of Palm Springs General Fund Obligations	100%	119,905,000	119,905,000
City of Palm Springs Pension Obligations	100%	<u>18,180,351</u>	<u>18,180,351</u>
Less: Riverside County Self-Supporting Obligations			180,662
<b>Total Net Direct and Overlapping General Fund Debt</b>		<u>\$1,333,372,096</u>	<u>\$191,692,593</u>

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Overlapping Tax Increment Debt (Successor Agencies)			
Riverside County Tax Allocation Bonds	.239-100%	\$ 222,658,028	\$ 36,558,669
Total Overlapping Tax Increment Debt		\$ 222,658,028	\$ 36,558,669
Total Direct Debt			\$194,454,718
Total Gross Overlapping Debt			279,841,950
Total Net Overlapping Debt			279,661,288
Gross Combined Total Debt			474,298,668
Net Combined Total Debt			474,116,006

Ratios to Adjusted Assessed Valuation:

Total Overlapping Tax and Assessment Debt	1.77%
Total Direct Debt (\$156,404,021)	1.29%
Gross Combined Total Debt	3.90%
Net Combined Total Debt	3.90%

Ratios to Redevelopment Successor Agencies Incremental Valuation (\$1,805,141,762)

Total Overlapping Tax Increment Debt	2.03%
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Notes: <sup>(1)</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: Muni Services LLP.

## 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 & Lughard, 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, 2016. 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, Measure J Sales Tax Fund and Golf Course Fund for Fiscal Years 2011/12 through 2015/16.

The City's voters approved Measure J, a ballot measure to increase the City's sales tax. The Measure J Fund was set up by policy of the City Council and moneys deposited to this fund, while not legally restricted, are used for the debt service on the 2012 Series B Lease Revenue Bonds issued to finance improvements in the City's downtown, as well as a variety of capital projects City-wide. However, the revenues of the Measure J Fund are available for purposes of the General Fund.

See "APPENDIX B" hereto for the audited financial statements for the fiscal year ended June 30, 2016. 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.

**GASB Statement No. 54.** 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, which are amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. 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.

**GASB Statements No. 68 and 71.** Reporting obligations under GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 ("GASB No. 68"), and GASB Statement No. 71 - Pension Transitions for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68, commenced with financial statements for Fiscal Year 2014/15. Under GASB No. 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of related to pensions in its financial statements as part of its financial position. The result of the implementation of these standards was to decrease the governmental activities net position at July 1, 2014 by \$128.3 million and to decrease the business-type activities net position at July 1, 2014 by \$16.7 million. The audited financial statements of the City for the Fiscal Year ended June 30, 2016 included in "APPENDIX B" contain additional information about the retirement liability and the application of GASB No. 68.

See Notes 1 in the City's audited financial statements attached in "APPENDIX B" for a discussion of additional accounting changes.

**TABLE NO. 24**  
**CITY OF PALM SPRINGS**  
**GENERAL FUND BALANCE SHEET <sup>(1)</sup>**  
**As of June 30**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Assets</b>					
Pooled cash and investments	\$15,385,469	\$17,407,162	\$18,184,225	\$19,956,634	\$22,737,025
Receivables:					
Accounts	6,903,381	7,087,511	7,374,775	7,794,643	9,575,562
Notes and loans	-	-	-	513,827	381,914
Accrued interest	793,259	793,259	793,259	793,259	793,259
Prepaid costs	-	248,750	-	-	-
Deposits	200,000	200,000	200,000	200,000	200,000
Advances to other funds	1,210,000	1,210,000	1,210,000	2,110,000	1,210,000
Land held for resale	49,950	49,950	49,950	49,950	49,950
Advance to Successor Agency	<u>-</u>	<u>2,011,785</u>	<u>1,609,428</u>	<u>1,609,428</u>	<u>1,609,428</u>
<b>Total Assets</b>	<b><u>\$25,542,059</u></b>	<b><u>\$29,008,417</u></b>	<b><u>\$29,421,637</u></b>	<b><u>\$33,027,741</u></b>	<b><u>\$36,557,138</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,807,001	\$ 4,237,580	\$ 4,120,434	\$ 4,655,534	\$ 4,396,399
Accrued liabilities	552,313	454,663	649,349	794,821	1,004,550
Deposits Payable	4,812	6,586	9,013	10,745	13,399
Advances from other funds	<u>49,950</u>	<u>49,950</u>	<u>49,950</u>	<u>49,950</u>	<u>49,950</u>
<b>Total Liabilities</b>	<b><u>3,414,076</u></b>	<b><u>4,748,779</u></b>	<b><u>4,828,746</u></b>	<b><u>5,511,050</u></b>	<b><u>5,464,298</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues	<u>1,343,259</u>	<u>1,343,259</u>	<u>1,313,199</u>	<u>1,761,587</u>	<u>1,642,739</u>
<b>Total Deferred Inflows of Resources</b>	<b>1,343,259</b>	<b>1,343,259</b>	<b>1,313,199</b>	<b>1,761,587</b>	<b>1,642,739</b>

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**TABLE NO. 24  
CITY OF PALM SPRINGS  
GENERAL FUND BALANCE SHEET <sup>(1)</sup>  
As of June 30**

Continued from previous page.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Prepaid costs	-	248,750	-	-	-
Notes and loans	-	2,011,785	1,609,428	-	-
Advances to other funds	1,210,000	1,210,000	1,210,000	2,110,000	1,210,000
Deposits	200,000	200,000	200,000	200,000	200,000
Advance to Successor Agency	-	-	-	1,609,428	1,609,428
<b>Assigned to:</b>					
Public safety programs	39,898	88,570	21,296	111,312	62,849
Parks and recreation programs	50,687	68,452	-	69,195	42,788
Public works projects	19,911	50,750	7,458	152,907	60,216
Continuing appropriations	1,663,921	2,549,662	4,762,351	5,308,857	4,169,346
General purposes	301,192	193,135	319,750	400,822	340,773
Library	17,376	20,148	15,805	700	21,600
Anticipated future obligations	1,500,000	1,350,000	-	-	-
Deficit reduction	1,740,050	1,753,058	1,350,000	34,316	2,201,531
PEG fees	-	368,771	584,234	771,913	985,591
<b>Unassigned</b>	<u>13,041,689</u>	<u>12,803,298</u>	<u>13,199,370</u>	<u>14,985,654</u>	<u>18,545,979</u>
<b>Total Fund Balances</b>	<u>19,784,724</u>	<u>22,916,379</u>	<u>23,279,692</u>	<u>25,755,104</u>	<u>29,450,101</u>
<b>Total Liabilities , Deferred Inflows of Resources, and Fund Balances</b>	<u>\$24,542,059</u>	<u>\$29,008,417</u>	<u>\$29,421,637</u>	<u>\$33,027,741</u>	<u>\$36,557,138</u>

<sup>(1)</sup> Measure J Fund is reported separately from the General Fund. See Table No. 25 and 26.

Source: City of Palm Springs Comprehensive Annual Financial Report.

**TABLE NO. 25  
CITY OF PALM SPRINGS  
GENERAL FUND <sup>(2)</sup>  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the year ended June 30**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Revenues</b>					
Taxes	\$ 57,410,481	\$ 71,163,884 <sup>(1)</sup>	\$ 78,811,698	\$ 83,178,285	\$ 85,811,748
Licenses and permits	2,357,573	2,395,767	3,372,637	3,352,034	3,652,263
Intergovernmental	4,603,466	4,667,803	4,750,452	4,450,902	4,810,493
Charges for services	4,443,087	4,742,568	5,302,707	5,680,862	5,913,898
Use of money and property	307,868	77,562	404,039	345,394	307,375
Contributions	53,562	21,595	14,958	21,392	11,280
Miscellaneous	<u>547,699</u>	<u>607,550</u>	<u>355,173</u>	<u>265,988</u>	<u>306,658</u>
<b>Total Revenues</b>	<b><u>69,723,736</u></b>	<b><u>83,676,729</u></b>	<b><u>93,011,664</u></b>	<b><u>97,294,857</u></b>	<b><u>100,813,715</u></b>
<b>Expenditures</b>					
Current:					
General government	9,957,068	10,258,480	16,246,457	12,152,043	13,713,652
Public safety	30,287,353	31,639,896	33,528,709	34,854,927	36,241,536
Cultural and convention center	2,816,914	2,890,229	2,571,871	3,066,359	3,070,145
Public works	7,347,007	9,962,784	8,650,011	9,474,651	10,260,351
Parks and recreation	8,354,839	6,382,836	7,208,798	7,336,767	7,211,162
Library	2,035,379	1,983,175	2,291,523	2,407,766	2,559,897
Debt service:					
Principal retirement	1,625,000	1,910,000	1,970,000	2,375,000	1,905,000
Interest and fiscal charges	<u>2,150,662</u>	<u>2,135,526</u>	<u>2,074,302</u>	<u>2,204,770</u>	<u>2,779,919</u>
<b>Total Expenditures</b>	<b><u>64,574,222</u></b>	<b><u>67,162,926</u></b>	<b><u>74,541,674</u></b>	<b><u>73,872,283</u></b>	<b><u>77,741,662</u></b>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>5,149,514</u>	<u>16,513,803</u>	<u>18,469,993</u>	<u>23,422,574</u>	<u>23,072,053</u>

Continued on the next page.

<sup>(1)</sup> Includes first full year of voter-approved sales tax. See Table No. 15.

<sup>(2)</sup> Measure J Fund is reported separately from the General Fund. See Table No. 26 and 27.

Source: City of Palm Springs Comprehensive Annual Financial Report.

**TABLE NO. 25  
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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	1,544,814	887,500	887,500	887,500	887,500
Transfers out	<u>(4,031,712)</u>	<u>(14,039,496)</u> <sup>(2)</sup>	<u>(18,994,180)</u>	<u>(21,834,662)</u>	<u>(20,264,556)</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>(2,486,898)</u></b>	<b><u>(13,151,996)</u></b>	<b><u>(18,106,680)</u></b>	<b><u>(20,947,162)</u></b>	<b><u>(19,377,056)</u></b>
Extraordinary gain (/loss)	<u>(1,605,000)</u>	<u>(230,152)</u>	-	-	-
Net Change in Fund Balances	1,057,616	3,131,655	363,313	2,475,412	3,694,997
Fund Balances, Beginning of Year	<u>18,727,108</u>	<u>19,784,724</u>	<u>22,916,379</u>	<u>23,279,692</u>	<u>25,755,104</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 19,784,724</u></b>	<b><u>\$ 22,916,379</u></b>	<b><u>\$ 23,279,692</u></b>	<b><u>\$ 25,755,104</u></b>	<b><u>\$ 29,450,101</u></b>

<sup>(2)</sup> The City records the Measure J voter-approved sales tax in the General Fund and then transfers such amounts to the Measure J Fund. 2012/13 reflects the first full year of collection of the tax and transfer to the Measure J Fund. See Table No. 15 and Table No. 25.

Source: City of Palm Springs Comprehensive Annual Financial Report.

The City's voters approved Measure J, a ballot measure to increase the City's sales tax. The Measure J Fund was set up by policy of the City Council and moneys deposited to this fund, while not legally restricted, are used for the debt service on the 2012 Series B Lease Revenue Bonds issued to finance improvements in the City's downtown, as well as a variety of capital projects City-wide. However, the revenues of the Measure J Fund are available for purposes of the General Fund.

**TABLE NO. 26  
CITY OF PALM SPRINGS  
MEASURE J FUND  
BALANCE SHEET  
For the year ended June 30**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Assets</b>					
Pooled cash and investments	\$ 596,733	\$ 8,228,392	\$12,119,093	\$ 9,091,886	\$12,117,027
Accounts receivable	1,353,800	1,615,501	1,909,100	2,119,400	2,000,100
Interest receivable	_____ -	_____ 11,791	_____ 21,885	_____ 13,419	_____ 17,379
<b>Total Assets</b>	<b><u>\$ 1,088,780</u></b>	<b><u>\$ 9,855,684</u></b>	<b><u>\$14,050,078</u></b>	<b><u>\$11,224,705</u></b>	<b><u>\$14,134,506</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	\$ 29,519	\$ 58,746	\$ 637,037	\$ 642,270	\$ 914,619
Accrued liabilities	_____ -	_____ 8,113	_____ 2,379	_____ 6,652	_____ 5,870
<b>Total Liabilities</b>	<b><u>29,519</u></b>	<b><u>66,859</u></b>	<b><u>639,416</u></b>	<b><u>648,922</u></b>	<b><u>920,489</u></b>
<b>Fund Balances</b>					
Assigned to public works projects	<u>1,921,014</u>	<u>9,788,825</u>	13,410,662	<u>10,575,783</u>	<u>13,214,017</u>
<b>Total Fund Balances</b>	<b><u>1,921,014</u></b>	<b><u>9,788,825</u></b>	<b><u>13,410,662</u></b>	<b><u>10,575,783</u></b>	<b><u>13,214,017</u></b>
<b>Total Liabilities Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 1,950,533</u></b>	<b><u>\$ 9,855,684</u></b>	<b><u>\$14,050,078</u></b>	<b><u>\$11,224,705</u></b>	<b><u>\$14,134,506</u></b>

Source: City of Palm Springs Comprehensive Annual Financial Report.



**TABLE NO. 27**  
**CITY OF PALM SPRINGS**  
**MEASURE J FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**For the year ended June 30**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Revenues</b>					
Use of money and property	\$ _____ -	\$ (24,561)	\$ 131,136	\$ 71,416	\$ 78,366
<b>Total Revenues</b>	<u>_____ -</u>	<u>(24,561)</u>	<u>131,136</u>	<u>71,416</u>	<u>78,366</u>
<b>Expenditures</b>					
Public works	<u>29,519</u>	<u>203,811</u>	<u>5,950,908</u>	<u>12,571,396</u>	<u>6,712,312</u>
<b>Total Expenditures</b>	<u>29,519</u>	<u>203,811</u>	<u>5,950,908</u>	<u>12,571,396</u>	<u>6,712,312</u>
Excess (deficiency) of Revenues Over (Under) Expenditures	<u>(29,519)</u>	<u>(228,372)</u>	<u>(5,817,772)</u>	<u>(12,499,980)</u>	<u>(6,633,946)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	1,950,533	11,046,045	12,623,919	12,854,984	12,461,899
Transfers out <sup>(1)</sup>	<u>_____ -</u>	<u>(2,949,862)</u>	<u>(3,184,310)</u>	<u>(3,189,883)</u>	<u>(3,189,719)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>1,950,533</u>	<u>8,096,183</u>	<u>9,439,609</u>	<u>9,665,101</u>	<u>9,272,180</u>
Net change in fund balances	1,921,014	7,867,811	3,621,837	(2,834,879)	2,638,234
Fund Balance at Beginning of Year	<u>_____ -</u>	<u>1,921,014</u>	<u>9,788,825</u>	<u>13,410,662</u>	<u>10,575,783</u>
Fund Balance at End of Year	<u>\$ 1,921,014</u>	<u>\$ 9,788,825</u>	<u>\$13,410,662</u>	<u>\$10,575,783</u>	<u>\$13,214,017</u>

<sup>(1)</sup> Represents transfer to the Debt Service Fund for debt service on the Authority's Lease Revenue Bonds, 2012 Series B (Downtown Revitalization Project).

Source: City of Palm Springs Comprehensive Annual Financial Report.

**TABLE NO. 28  
CITY OF PALM SPRINGS  
GOLF COURSE ENTERPRISE FUND  
STATEMENT OF NET POSITION**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Assets:</u>					
Current:					
Receivables:					
Accounts	\$ 168,692	\$ 217,122	\$ 115,377	\$ 289,694	\$ 220,451
Prepaid costs	<u>139,524</u>	<u>213,768</u>	<u>144,421</u>	-	-
Total Current Assets	<u>308,216</u>	<u>430,890</u>	<u>259,798</u>	<u>289,694</u>	<u>220,451</u>
Noncurrent:					
Capital assets, net of accumulated depreciation	<u>6,891,883</u>	<u>6,320,517</u>	<u>5,777,030</u>	<u>5,438,555</u>	<u>5,337,254</u>
Total Noncurrent Assets	<u>6,891,883</u>	<u>6,320,517</u>	<u>5,777,030</u>	<u>5,438,555</u>	<u>5,337,254</u>
 Total Assets	 <u>7,200,099</u>	 <u>6,751,407</u>	 <u>6,036,828</u>	 <u>5,728,249</u>	 <u>5,557,705</u>
 <u>Deferred Outflows of Resources:</u>					
Deferred charge on refunding	<u>508,432</u>	<u>474,536</u>	<u>440,641</u>	<u>406,745</u>	<u>372,849</u>
Total Deferred Outflows of Resources	<u>508,432</u>	<u>474,536</u>	<u>440,641</u>	<u>406,745</u>	<u>372,849</u>
 <u>Liabilities:</u>					
Current:					
Accounts payable	3,336	267,926	148,540	242,543	222,411
Accrued interest	1,198,372	1,193,238	1,187,970	1,182,619	1,177,070
Deposits payable	500,000	500,000	500,000	500,000	500,000
Due to other funds	3,240,333	1,890,235	-	-	-
Bonds, notes, and capital leases	<u>568,746</u>	<u>367,666</u>	<u>614,123</u>	<u>561,714</u>	<u>575,373</u>
Total Current Liabilities	<u>5,510,787</u>	<u>4,219,065</u>	<u>2,450,633</u>	<u>2,486,876</u>	<u>2,474,854</u>
Noncurrent:					
Advances from other funds	2,640,000	2,640,000	2,640,000	2,640,000	2,640,000
Bonds, notes, and capital leases	<u>9,715,316</u>	<u>9,347,650</u>	<u>8,515,627</u>	<u>7,947,128</u>	<u>7,371,754</u>
Total Noncurrent Liabilities	<u>12,355,316</u>	<u>11,987,650</u>	<u>11,155,627</u>	<u>10,587,128</u>	<u>10,011,754</u>
 Total Liabilities	 <u>17,866,103</u>	 <u>16,206,715</u>	 <u>13,606,260</u>	 <u>13,074,004</u>	 <u>12,486,608</u>
 <u>Net Position:</u>					
Net Investment in capital assets	(3,392,179)	(2,920,263)	(2,912,079)	(2,663,542)	(2,237,024)
Unrestricted	<u>(6,765,393)</u>	<u>(6,060,509)</u>	<u>(4,216,712)</u>	<u>(4,275,468)</u>	<u>(4,319,030)</u>
Total Net Position	<u>\$(10,157,572)</u>	<u>\$(8,980,772)</u>	<u>\$(7,128,791)</u>	<u>\$(6,939,010)</u>	<u>\$(6,556,054)</u>

**TABLE NO. 29  
CITY OF PALM SPRINGS  
GOLF COURSE ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Operating Revenues</b>					
Miscellaneous	\$ 12,210	\$ 35,234	\$ 22,538	\$ 24,337	\$ 23,866
Green fees and cart rentals	<u>5,046,766</u>	<u>4,850,343</u>	<u>4,519,169</u>	<u>4,836,445</u>	<u>4,234,555</u>
<b>Total Operating Revenues</b>	<u>5,058,976</u>	<u>4,885,577</u>	<u>4,541,707</u>	<u>4,860,782</u>	<u>4,258,421</u>
<b>Operating Expenses</b>					
Administration and general	3,623	4,121	4,128	1,917	2,875
Depreciation expense	532,498	571,365	573,897	338,476	101,302
Other charges and services	<u>4,630,726</u>	<u>4,896,346</u>	<u>4,494,058</u>	<u>4,595,603</u>	<u>4,455,631</u>
<b>Total Operating Expenses</b>	<u>5,166,847</u>	<u>5,471,832</u>	<u>5,072,083</u>	<u>4,935,996</u>	<u>4,559,808</u>
Operating Loss	<u>(107,871)</u>	<u>(586,255)</u>	<u>(530,376)</u>	<u>(75,214)</u>	<u>(301,387)</u>
<b>Nonoperating Expenses</b>					
Interest expense	<u>(496,034)</u>	<u>(476,610)</u>	<u>(455,901)</u>	<u>(434,775)</u>	<u>(413,187)</u>
<b>Total Nonoperating Expenses</b>	<u>(496,034)</u>	<u>(476,610)</u>	<u>(455,901)</u>	<u>(434,775)</u>	<u>(413,187)</u>
Loss Before Transfers	(603,905)	(1,062,865)	(986,277)	(509,989)	(714,574)
Transfers in	<u>285,050</u>	<u>2,239,665</u>	<u>2,838,258</u>	<u>699,770</u>	<u>1,097,530</u>
Change in Net Position	<u>(318,855)</u>	<u>1,176,800</u>	<u>1,851,981</u>	<u>189,781</u>	<u>382,956</u>
Net Position, Beginning of Year	<u>(9,838,717)</u>	<u>(10,157,572)</u>	<u>(8,980,772)</u>	<u>(7,128,791)</u>	<u>(6,939,010)</u>
<b>Net Position, End of Fiscal Year</b>	<u>\$(10,157,572)</u>	<u>\$(8,980,772)</u>	<u>\$(7,128,791)</u>	<u>\$(6,939,010)</u>	<u>\$(6,556,054)</u>

## 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

**Lease Payments are Limited Obligations of the City.** 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 Limitation 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.** Except to the extent that amounts are available (i) in the Lease Payment Fund under the Indenture, (ii) from proceeds of rental interruption insurance, or (iii) as payments due from third parties due to a delay in reconstructing the Leased Property, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Property or defects in the title with respect to the Leased Property there is substantial interference with the use and possession of all or a portion of the Leased Property by the City. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described above, do not exceed the fair rental value (as determined by the City) for the use and possession of the portion of the Leased Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. The Lease Agreement shall continue in full force and effect following an event of abatement and the City waives any right to terminate the Lease Agreement by virtue of an abatement event.

In the event that such funds are insufficient to make all payments due on the Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease Agreement or Indenture for nonpayment under such circumstances. Failure to pay principal, premium, if any, or interest with respect to the Bonds as a result of abatement of the City's obligation to make Lease Payments under the Lease Agreement is not an event of default under the Indenture or the Lease Agreement. In the event that Lease Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely - since the Lease Agreement does not require earthquake or flood insurance unless the City determines that such coverage is available from reputable insurers at commercially reasonable rates and although the City currently maintains earthquake insurance with respect to the Leased Property, damage from earthquakes may not be covered in future years - and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds but has covenanted in the Lease Agreement to use its best efforts to repair or replace the Leased Property from other lawfully available funds to the

extent that the Net Proceeds are insufficient. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Abatement of Lease Payments."

Notwithstanding the provisions of the Lease Agreement and the Indenture specifying the extent of abatement of Lease Payments and the application of other funds in the event of the City's failure to have use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments of the City may not be sufficient to pay all of the remaining principal and interest represented by the Bonds.

**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 and to maintain rental interruption insurance in an amount equal to maximum annual Lease Payments in any two consecutive years (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Insurance" herein). The Lease Agreement does not require earthquake or flood insurance unless the City determines that such coverage is available from reputable insurers at commercially reasonable rates. See "Seismic Considerations" below. 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 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. If any Leased Property so damaged or destroyed is not repaired or replaced within the period during which amounts in the Reserve Fund and 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 Leased Property.** In general, the owners and lessees of a parcel may be required by law to remedy conditions of the property relating to 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 Leased Property.

## **Seismic Considerations**

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. 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. The City's current insurance policy limit for property damage of City facilities from earthquake or flood is \$5,000,000 per occurrence. It is possible that if there were damage to numerous City facilities from an earthquake or flood and the damage was greater than \$5,000,000, the City might choose to apply available insurance proceeds to other City facilities before repairing the Leased Property.

A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. If an earthquake were to substantially damage or destroy taxable property within the City, a reduction in taxable values of property in the City and a reduction in revenues available to the General Fund to make Lease Payments would be likely to occur. Seismic activity may also reduce or eliminate the use and occupancy of the Leased Property by the City. There is no assurance that, in the event of a natural disaster, sufficient City reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of any Leased Property.

The City has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide and fire risk, and is required to comply with Federal Emergency Management Agency requirements for disaster relief funding.

If such events described above occur, the City's emergency response to such an event may add unanticipated expenditures to the General Fund budget, some or all of which may not be reimbursed by federal or state disaster funding, and, if reimbursed, may not be received by the City in a timely manner. This could lead to reduced ability by the City to make Lease Payments. Such event could also result in substantial damage to properties in the City, which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their property taxes.

## **State Budget**

*The following information concerning the State's budgets has been obtained from publicly available information which the City, the Municipal Advisor and the Underwriter believe to be reliable; however, neither the City, the Municipal Advisor nor the Underwriter guarantees 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 with respect to the Bonds is payable by or the responsibility of the State of California.*

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

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

**Potential Impact of State of California Financial Condition on the City.** During the recession the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has experienced significant improved fiscal conditions during the past few years, the State is still facing continuing financial challenges and unfunded long-term liabilities of more than \$200 billion, which could result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources.

Governor Brown released his proposed fiscal year 2017/18 budget for the State on January 10, 2017. The City does not anticipate any material adverse effect on the City's finances based on this proposed fiscal year 2017/18 State budget. However, the City can make no predictions regarding the changes, if any, that will be made to the proposed budget before it is finally adopted. The City also cannot predict what measures the State will adopt to respond to any future financial difficulties. The City can provide no guarantees regarding the outcome of future State budget negotiations, the actions that will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures, or the impact that such budgets or actions will have on the City's finances and operations.

### **Limited Recourse on Default; No Acceleration**

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 and interest on the Bonds in full when due. Any such re-leasing of the Leased Property would be subject to existing encumbrances thereon, including reservations and restrictions relating to the reservation of parking spaces and the lease with Verizon Wireless. See "THE LEASED PROPERTY" above.

### **Possessory Interest Taxes; Bureau of Indian Affairs Regulations**

The City has enjoyed a long relationship with the Agua Caliente Band of Cahuilla Indians. Established in 1876, the Agua Caliente reservation now contains more than 32,000 acres in a checkerboard pattern spanning parts of the City, Cathedral City, Rancho Mirage and the San Jacinto and Santa Rosa mountains. As a result of this checkerboard pattern, the reservation is deeply connected to the local communities and the infrastructure of the City.

Certain residents of and businesses in Palm Springs lease property on reservation land. When a person or entity leases, rents, or uses real estate owned by a government agency for its exclusive use, a taxable possessory interest occurs. The County collects possessory interest taxes pursuant to, among other authority, Sections 61, 107-107.9 of the Revenue and Taxation Code of the State of California from non-tribal members who lease property on reservation land. The County then redistributes portions of such taxes to cities, school districts and other local governments, including the City and the Successor Agency.

On December 5, 2012, the Department of the Interior, Bureau of Indian Affairs, promulgated final federal regulations that became effective on January 4, 2013, governing the applicability of state and local taxes on surface property interests in leased tribal land. The regulations (25 CFR 162.017) (the "Property Taxation Regulations") provide that –

- (a) Subject only to applicable Federal law, permanent improvements on the leased land, without regard to ownership of those improvements, are not subject to any fee, tax, assessment, levy, or other charge imposed by any State or political subdivision of a State. Improvements may be subject to taxation by the Indian tribe with jurisdiction.
- (b) Subject only to applicable Federal law, activities under a lease conducted on the leased premises are not subject to any fee, tax, assessment, levy, or other charge (e.g., business use, privilege, public utility, excise, gross revenue taxes) imposed by any State or political subdivision of a State. Activities may be subject to taxation by the Indian tribe with jurisdiction.
- (c) Subject only to applicable Federal law, the leasehold or possessory interest is not subject to any fee, tax, assessment, levy, or other charge imposed by any State or political subdivision of a State. Leasehold or possessory interests may be subject to taxation by the Indian tribe with jurisdiction.

In light of the Property Taxation Regulations, the Agua Caliente Band of Cahuilla Indians has sued the County and various related County defendants (Agua Caliente Band of Cahuilla Indians v. Riverside County, et al.; Case No. 14-00007JGB) in U.S. District Court for the Central District of California, Eastern Division, to prevent the assessment of possessory interest taxes on tribal land, including land located in Palm Springs. In the complaint, the tribe argues that the possessory interest tax increases the economic burden on the tribe and its members by devaluing Indian land leases. According to the complaint, the tax also limits the tribe's income, since it has agreed to forgo its own tax to avoid the double taxation of leaseholders. The litigation was filed in January 2014 [update for DWA Judgement]. If the tribe ultimately prevails, however, leaseholders may potentially be entitled to refunds of possessory interest taxes collected by the County during the four year period prior to commencement of the litigation. The City and its Successor Agency cannot predict the outcome of this or any other litigation relating to possessory interest taxes or any other taxes imposed on leased tribal property.

If the tribe prevails with respect to their claims, the loss of property tax revenue to the General Fund, based on the projected 2016/17 possessory interest value net loss of \$ \_\_\_ billion calculated using the City's share of the 1% general property tax levy, is estimated to be \$ \_\_\_ million annually. The City would stand to lose another estimated \$ \_\_\_ of its share of residual property tax and other tax sharing payments relating to the Successor Agency's loss of a net 2016/17 incremental value of \$ \_\_\_ million.

If the tribe prevails, the City would expect the tribe to pay the City for services provided to such properties and previously funded in part with the possessory interest tax amounts, but there is no guarantee that such an agreement would be reached.



## **Enforcement of Remedies**

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Indenture may be limited by and are subject to the limitations on legal remedies against cities, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "Bankruptcy of the City" below); equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against municipal entities in the State. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the Bonds, the Indenture, the Site Lease, the Lease Agreement, the Assignment Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitation on legal remedies against charter cities and counties in the State. See "Bankruptcy of the City" below.

## **Bankruptcy of the City**

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. If the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of the Lease Payments under the Lease Agreement as they relate to Revenues due to Owners of Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Lease Agreement and the City's obligations to make payments thereunder.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. However, the bankruptcy of the Authority, and not the City, should not affect the Trustee's rights under the Lease Agreement. The Authority could still challenge the assignment, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues to protect their interests.

## **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, such as Propositions 22 and 26 approved 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.

**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 prepayment 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 reappraisal 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 ten fiscal years as shown below:

<u>Tax Roll</u>	<u>Percentage</u>	<u>Tax Roll</u>	<u>Percentage</u>
1981/82	1.000%	2010/11	(0.237)%
1995/96	1.190%	2011/12	0.753%
1996/97	1.110%	2014/15	0.454%
1998/99	1.853%	2015/16	1.998%
2004/05	1.867%	2016/17	1.525%

**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 experienced Proposition 8 reductions in property values between 2009 and 2013. See “FINANCIAL INFORMATION - Ad Valorem Property Taxes - 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 2016/17 is \$151,806,113. The City’s appropriations subject to the limit for 2016/17 are \$98,071,144. 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 XIIC and XIID 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 XIID. 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 vote, 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 8% of Palm Springs’ 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 9-1-1 emergency 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. The tax is authorized to be levied and collected for 25 years.

In November 2013, voters approved by majority vote, a ballot measure that allows the City to choose to tax medical cannabis dispensaries up to 15% of their revenue. The current tax rate is 10%, and the tax commenced January 1, 2014. There is no time limit established for the collection of the medical cannabis tax.

**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 10-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, 8% of the City’s property tax revenues were diverted to the State as a result of a Proposition 1A suspension.

Proposition 1A also provides that if the State reduces the vehicle license fee 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 (see “THE BONDS - Redemption - Special Mandatory Redemption From Insurance or Condemnation Proceeds”).

## **Loss of Tax Exemption**

As discussed under the caption “LEGAL MATTERS - Tax Matters” herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were executed and delivered as a result of future acts or omissions of the Authority or the City in violation of its 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.

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. Neither the Authority nor the City can provide 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 the interest on the Bonds from gross income for federal income tax purposes. If the exclusion of the 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 with respect to the validity and enforceability of the Indenture and the Lease Agreement, and as to the validity of the Bonds. 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 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 for the City and the Authority by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel and by the City Attorney. Certain legal matters will be passed on for the Underwriter by its Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. 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, *provided, however*, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Bonds. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

**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 a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

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

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

**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, including any federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

**Form of Opinion.** A copy of the proposed form of opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix D.

## **Future Legislation**

Future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Tax Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

## **Absence of Litigation**

The Authority and the City will each 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 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.

Except as otherwise required in the Continuing Disclosure Certificate, the City undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. 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. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

### **Underwriting**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) pursuant to a Bond Purchase Agreement by and among the Underwriter, the City and the Authority. The Underwriter purchased the Bonds at a price equal to \$\_\_\_\_\_, which amount represents the principal amount of the Bonds plus an original issue premium of \$\_\_\_\_\_, less an Underwriter's discount of \$\_\_\_\_\_. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter's discount.

The Underwriter is offering the Bonds at the prices set forth on the inside front cover page hereof. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside front cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **The Municipal Advisor**

The material contained in this Official Statement was prepared by the Authority and the City with the assistance of the Municipal 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 Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

## **Continuing Disclosure**

The City will provide annually certain financial information and data relating to the Bonds by not later than February 15 in each year commencing February 15, 2018 (the "Annual Report"), and to provide notices of the occurrence of certain other enumerated events if deemed by the City to be material. The Municipal Advisor will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events and certain other terms of the continuing disclosure obligation are found in the form of the City's Disclosure Certificate attached in "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE." The City believes that in the last five years it has not failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12(b)(5) of the Securities and Exchange Commission to provide annual reports or notices of enumerated events.

## **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 hereof 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 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 Authority and by the City, 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 \$10,885,000\* 2017 Lease Revenue Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2017, by and between U.S. Bank National Association, 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.

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 Harrell & Company Advisors, LLC 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](http://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.

"*Participating Underwriter*" shall mean Stifel, Nicolaus & Company, Incorporated, or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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\* Preliminary, subject to change.

“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 2016/17 Fiscal Year, which is due not later than February 15, 2018 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 shall send a notice to EMMA in an electronic format prescribed by the MSRB.

(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 Table No the following information, insofar as available from public records:

(i) Table No. 10 - Gross Assessed Value of All Taxable Property for the fiscal year preceding the date of the Annual Report;

(ii) Table No. 11 - Largest Property Taxpayers for the fiscal year preceding the date of the Annual Report;

(iii) Table No. 12 - Secured Tax Levies and Collections for the fiscal year preceding the date of the Annual Report;

(iv) Table No. 17 - Employer Retirement Contribution Rate for the fiscal year preceding the date of the Annual Report;

(v) Table No. 18 - Annual Pension Costs for the fiscal year preceding the date of the Annual Report;

(vi) Table No. 19 - Funding Progress as of the most current actuarial valuation date provided by the California Public Employees' Retirement System;

(vii) Table No. 20 - Annual OPEB and Net OPEB Contribution for the fiscal year preceding the date of the Annual Report;

(viii) Table No. 22 - OPEB Schedule of Funding Progress for the most current required actuarial valuation;

(ix) Table No. 24 - General Fund Balance Sheet;

(x) Table No. 25 - General Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

(xi) Table No. 26 - Measure J Fund Balance Sheet; and

(xii) Table No. 27 - Measure J Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

(xiii) Table No. 28 - Golf Course Enterprise Fund Statement of Net Position.

(xiv) Table No. 29 - Golf Course Enterprise Fund Statement of Revenues, Expenditures and Changes in Net Position.

(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 (if not the Agency) 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, if material, 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 Bondholders 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.

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The initial Dissemination Agent shall be Harrell & Company Advisors, LLC. 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 Bondholders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders 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 Bondholder 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 IX 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 Bond, 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 Special 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: \_\_\_\_\_, 2017

CITY OF PALM SPRINGS

By: \_\_\_\_\_  
Its: Finance Director and Treasurer

**APPENDIX D**  
**PROPOSED FORM OF BOND COUNSEL OPINION**

## APPENDIX E

### THE BOOK-ENTRY 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](http://www.dtcc.com). *The information contained on such Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds 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 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, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: Charles F. Adams, Esq.

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

## **SITE AND FACILITIES LEASE**

This SITE AND FACILITIES LEASE (this "Site Lease"), dated for convenience as of May 1, 2017, is between the CITY OF PALM SPRINGS, a charter city and municipal corporation 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").

### **BACKGROUND:**

1. The City and the Authority have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds").

2. The 2007 Authority Bonds are secured by a pledge of and lien on certain lease payments made by the City under a Lease Agreement dated as of July 1, 2007, and recorded August 15, 2007, as Instrument No. 07-0524893 (the "2007 Lease Agreement"), between the Authority as lessor and the City as lessee of certain real property, consisting generally of the land and improvements which constitute the Resort Golf Course and the police building which is located within the City's municipal complex, as such real property is described more fully in Appendix A attached hereto and by this reference incorporated herein (the "Leased Property").

3. The 2007 Authority Bonds are currently subject to redemption on any date upon payment of the principal amount thereof together with accrued interest represented thereby to the redemption date, without premium.

4. The City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds in the aggregate principal



amount of \$\_\_\_\_\_ (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, and under an Indenture of Trust dated as of May 1, 2017, between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

5. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the City has proposed to lease the Leased Property to the Authority under this Site Lease and the Authority and the City have proposed to enter into a Lease Agreement dated as of May 1, 2017 (the "Lease Agreement"), which has been recorded concurrently herewith, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property thereunder which are sufficient to provide funds for the payment of debt service on the Bonds when due.

6. The lease payments made by the City under the Lease Agreement have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of May 1, 2017, which has been recorded concurrently herewith, between the Authority as assignor and the Trustee as assignee.

#### AGREEMENT:

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

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

SECTION 2. *Term; Possession.* The term of this Site Lease 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 May 1, 2027 (unless the term of the Lease Agreement has been extended under the provisions 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 applied as set forth in Section 3.02 of the Indenture. 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 under 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. *Substitution or Release of Property.* If the City exercises its option under Section 3.3 of the Lease Agreement to substitute property for the Leased Property in whole or in part, such substitution shall also operate to substitute property for the Leased Property which is leased hereunder. If the City exercises its option under Section 3.4 of the Lease Agreement to release a portion of the Leased Property from the Lease Agreement, such substitution shall also operate to release such portion of the Leased Property hereunder. The description of the Leased Property which is leased hereunder shall conform at all times to the description of the Leased Property which is leased under the Lease Agreement.

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

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

SECTION 9. *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 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 10. *Quiet Enjoyment.* The Authority at all times during the term of this Site Lease shall peaceably and quietly have, hold and enjoy all of the Leased Property, subject to the provisions of the Lease Agreement and subject only to Permitted Encumbrances (as such term is defined in the Lease Agreement).

SECTION 11. *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 12. *Taxes.* The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property and any improvements thereon.

SECTION 13. *Eminent Domain.* 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 14. *Partial Invalidity.* If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. *Notices.* Any notice, request, complaint, demand or other communication under this Site Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy, telex or other form of electronic or 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, California 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, California 92262  
Attn: Executive Director

*If to the Trustee:* U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services

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

- (i) to make cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds;
- (ii) to amend any provision hereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;
- (iii) to conform to any amendment of the Indenture which is made thereto in accordance with Section 9.01 of the Indenture; or
- (iv) for the purpose of effectuating any substitution or release of property under Section 6.

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

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

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

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

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

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

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

**CITY OF PALM SPRINGS, as lessor**

By \_\_\_\_\_  
David H. Ready  
City Manager

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim City Clerk

APPROVED AS TO FORM:

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

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

By \_\_\_\_\_  
David H. Ready  
Executive Director

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim Secretary

APPROVED AS TO FORM:

\_\_\_\_\_  
Authority Counsel

## **EXHIBIT A**

### **DESCRIPTION OF THE LEASED PROPERTY**

The property constituting the Leased Property consists of the land located in the City of Palm Springs, County of Riverside, State of California, which is described as follows, including all buildings, improvements and facilities at any time situated thereon.

THAT PORTION OF PARCEL 2 OF PARCEL MAP 15576, IN THE CITY OF PALM SPRINGS, AS SHOWN BY MAP ON FILE IN BOOK 81 PAGE(S) 37 AND 38, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, LYING NORTH OF A LINE THAT IS PARALLEL WITH AND 350 FEET SOUTH FROM THE CENTERLINE OF TAHQUITZ-MC CALLUM WAY AS SAID CENTERLINE IS SHOWN ON SAID PARCEL MAP 15576.

TO BE RECORDED AND WHEN RECORDED  
RETURN TO:

Jones Hall, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: Charles F. Adams, Esq.

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

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## LEASE AGREEMENT

Dated as of May 1, 2017

between the

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

and the

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

Relating to

\$ \_\_\_\_\_  
**City of Palm Springs Financing Authority**  
**2017 Lease Revenue Refunding Bonds**

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## LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease Agreement"), dated for convenience as of May 1, 2017, 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, as lessor (the "Authority"), and the CITY OF PALM SPRINGS, a charter city and municipal corporation duly organized and existing under the Constitution and laws of said State, as lessee (the "City").

### BACKGROUND:

1. The City and the Authority have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds").

2. The 2007 Authority Bonds are secured by a pledge of and lien on certain lease payments made by the City under a Lease Agreement dated as of July 1, 2007, and recorded August 15, 2007, as Instrument No. 07-0524893 (the "2007 Lease Agreement"), between the Authority as lessor and the City as lessee of certain real property, consisting generally of the land and improvements which constitute the Resort Golf Course and the police building which is located within the City's municipal complex, as such real property is described more fully in Appendix A attached hereto and by this reference incorporated herein (the "Leased Property").

3. The 2007 Authority Bonds are currently subject to redemption on any date upon payment of the principal amount thereof together with accrued interest represented thereby to the redemption date, without premium.

4. The City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, and under an Indenture of Trust dated as of May 1, 2017, between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

5. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the City has leased the Leased Property to the Authority under a Site and Facilities Lease dated as of May 1, 2017, which has been recorded concurrently herewith, and the Authority and the City have proposed to enter into this Lease Agreement under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property thereunder which are sufficient to provide funds for the payment of debt service on the Bonds when due.

6. The lease payments made by the City under this Lease Agreement have been assigned by the Authority to the Trustee for the security of the Bonds under an



Assignment Agreement dated as of May 1, 2017, which has been recorded concurrently herewith, between the Authority as assignor and the Trustee as assignee.

## AGREEMENT:

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

### ARTICLE I

#### DEFINITIONS; RULES OF INTERPRETATION

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

SECTION 1.2. *Interpretation.*

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

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

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

## ARTICLE II

### COVENANTS, REPRESENTATIONS AND WARRANTIES

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

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

and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Site Lease, the Refunding Instructions and this Lease Agreement, or the consummation of any transaction therein and herein contemplated, except as have been obtained or made and as are in full force and effect.

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

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

- (a) Due Organization and Existence. The Authority is a joint exercise of powers authority duly organized and existing under a joint powers agreement and the laws of the State of California; has power to enter into this Lease Agreement, the Site Lease, the Refunding Instructions, the Assignment Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.
- (b) Due Execution. The representatives of the Authority executing this Lease Agreement, the Site Lease, the Refunding Instructions, the Assignment Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.
- (c) Valid, Binding and Enforceable Obligations. This Lease Agreement, the Site Lease, the Refunding Instructions, the Assignment Agreement and the Indenture have been duly authorized, executed

and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

- (d) No Conflicts. The execution and delivery of this Lease Agreement, the Site Lease, the Refunding Instructions, the Assignment Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease Agreement, the Site Lease, the Refunding Instructions, the Assignment Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease Agreement, the Site Lease, the Assignment Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Lease Agreement, the Site Lease, the Assignment Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease Agreement, the Site Lease,

the Assignment Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

### ARTICLE III

#### LEASE TO THE CITY; ISSUANCE OF BONDS AND APPLICATION OF PROCEEDS; SUBSTITUTION AND RELEASE OF LEASED PROPERTY

SECTION 3.1. *Lease of Leased Property.* The Authority hereby leases the Leased Property to the City, and the City hereby leases the Leased Property from the Authority, upon the terms and conditions set forth in this Lease Agreement.

SECTION 3.2. *Issuance of Bonds; Application of Proceeds.* The Authority hereby agrees to issue the Bonds for the purpose of providing funds to refund and discharge the 2007 Authority Bonds.

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

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Riverside County Recorder sufficient memorialization of, an amendment hereof which adds the legal description of the Substitute Property to Appendix A and deletes therefrom the legal description of the Former Property.
- (c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate hereunder in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to serve a governmental function of the City.
- (e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made herein.
- (g) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the estimated value of the Substitute Property is at least equal to the

estimated value of the Former Property, and that the useful life of the Substitute Property at least extends to May 1, 2027.

- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

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

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

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

Upon the satisfaction of all such conditions precedent, the Term of this Lease 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. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease Agreement and the Assignment Agreement of record against the Released Property.

SECTION 3.5. *No Merger.* It is the express intention of the Authority and the City that this Lease Agreement and the obligations of the parties hereunder shall be and remain separate and distinct from the Site Lease and the obligations of the parties

thereunder, and that during the term of the Site Lease and this Lease Agreement no merger of title or interest shall occur or be deemed to occur as a result of the respective positions of the Authority and the City thereunder and hereunder.

## ARTICLE IV

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

SECTION 4.1. *Consideration for Lease.* The Authority hereby agrees to issue the Bonds for the purpose of providing funds to refund and discharge the 2007 Authority Bonds in full. On the Closing Date, the Authority will cause the proceeds of sale of the Bonds to be deposited with the Trustee. The Trustee shall apply such proceeds in accordance with Section 3.02 of the Indenture.

SECTION 4.2. *Term.* The Term of this Lease Agreement shall commence on the Closing Date and end on the date on which the Indenture is discharged in accordance with Section 10.01 end on May 1, 2027, unless such term is extended as hereinafter provided. If on May 1, 2027, 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 May 1, 2027, the Indenture shall be discharged by its terms, the Term of this Lease Agreement shall thereupon end.

#### SECTION 4.3. *Lease Payments.*

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

(b) Effect of Prepayment. If the City prepays all Lease Payments in full under Section 9.3, the City's obligations under this Section will thereupon cease and terminate. If the City prepays the Lease Payments in part but not in whole under Sections 9.2 or 9.3, the principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis which corresponds to the principal maturities of the Bonds which are redeemed thereby; and the interest component of each remaining Lease Payment will be reduced by the aggregate

corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed under Section 4.02 of the Indenture.

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

(d) Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under this Lease 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) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, under the Assignment Agreement, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at its Office, all payments payable by the City under this Section.

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

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

- (a) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due,
- (b) all reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture,



- (c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Lease Agreement or the Indenture,
- (d) amounts coming due and payable as Excess Investment Earnings in accordance with Section 7.6(e), and
- (e) the reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of this Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving this Lease Agreement, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of this Lease Agreement.

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

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

## ARTICLE V

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

SECTION 5.1. *Maintenance, Utilities, Taxes and Assessments.* Throughout the Term of this Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property. The City waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the City under the terms of this Lease 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 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 its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

SECTION 5.2. *Modification of Leased Property.* The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease Agreement. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this Section, shall be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements,

repairs, renewals or replacements made by the City under this Section; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

SECTION 5.3. *Liability and Property Damage Insurance.* The City shall maintain or cause to be maintained throughout the Term of this Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of Section 5.7, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which it has been paid.

SECTION 5.4. *Casualty Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease Agreement, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance 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 available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be applied as provided in Section 6.1.

SECTION 5.5. *Rental Interruption Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by Section 5.4, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of

or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

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

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

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

SECTION 5.8. *Installation of City's Personal Property.* The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee has any interest, and may be modified or removed by the City at any time, provided that the City shall repair all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement prevents the City from purchasing or leasing items to be installed under this Section under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price

thereof, so long as no such lien or security interest attaches to any part of the Leased Property.

SECTION 5.9. *Liens.* The City may not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than as herein contemplated and except for such encumbrances as the City certifies in writing to the Trustee do not materially and adversely affect the leasehold estate of the City in the Leased Property hereunder. If any such mortgage, pledge, lien, charge, encumbrance or claim does materially and adversely affect the leasehold estate of the City in the Leased Property hereunder, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible; provided that the City is not required to do so prior to the time when such mortgage, pledge, lien, charge, encumbrance or claim actually causes such material adverse effect. The City will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

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

## ARTICLE VI

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

SECTION 6.1. *Application of Net Proceeds.* The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied as set forth in Section 5.05 of the Indenture.

SECTION 6.2. *Termination or Abatement Due to Eminent Domain.* If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease Agreement thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

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

SECTION 6.3. *Abatement Due to Damage or Destruction.* The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement continues in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage and destruction.

## ARTICLE VII

### OTHER COVENANTS OF THE CITY

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

SECTION 7.2. *Access to the Leased Property.* The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, have the right at all reasonable times to enter upon and to examine and inspect the Leased Property or any part thereof. The City further agrees that the Authority, any Authority Representative and the Authority's successors or assigns may have such rights of access to the Leased Property or any component thereof as reasonably necessary to cause the proper maintenance of the Leased Property if the City fails to perform its obligations hereunder; *provided, however*, that neither the Authority nor any of its assigns has any obligation to cause such proper maintenance.

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

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

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

SECTION 7.4. *Assignment and Subleasing by the City.* The City may sublease the Leased Property, or any portion thereof, 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 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;
- (c) no such sublease by the City may cause the Leased Property to be used for a purpose which is not authorized under the provisions of the laws of the State of California; and
- (d) the City shall furnish to the Authority and the Trustee a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payments to become included in gross income for purposes of federal income taxation or to become subject to personal income taxation by the State of California.

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

but only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Lease Agreement in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property under Sections 3.3 or 3.4; or
- (v) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

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

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

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

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

(c) No Arbitrage. The City 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 or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.



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

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

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

SECTION 7.7. *Continuing Disclosure.* The City shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the City as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Lease Agreement, failure of the City to comply with such Continuing Disclosure Certificate will not constitute an Event of Default, although any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under this Section, including seeking mandate or specific performance by court order.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

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

- (a) Failure by the City to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.
- (b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, the failure will

not constitute an Event of Default if the City commences to cure the failure within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

- (c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

SECTION 8.2. *Remedies on Default.* Whenever any Event of Default has happened and is continuing, the Authority may exercise any and all remedies available under law or granted under this Lease Agreement. Notwithstanding anything herein or in the Indenture to the contrary, neither the Authority nor the Trustee may accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each covenant hereof to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights granted hereunder; except that no termination of this Lease Agreement may be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies, subject in all respects to the limitations set forth in Section 8.3.

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate this Lease 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 releasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease 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 the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place the Leased Property in storage or other suitable place in the County of 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 the Leased Property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease 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 Lease Agreement shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph, and the City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.

- (b) Termination of Lease. If an Event of Default occurs and is continuing hereunder, the Authority at its option may terminate this Lease Agreement and re-lease all or any portion of the Leased Property. If the Authority terminates this Lease Agreement at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments and Additional Rental Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Bond Fund. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease 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, 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.
- (c) Proceedings at Law or In Equity. If an Event of Default occurs and continues hereunder, the Authority may take whatever action at law

or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

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

SECTION 8.4. *Agreement to Pay Attorneys' Fees and Expenses.* If the Authority or the City defaults under any of the provisions of this Lease Agreement and the non-defaulting party employs attorneys or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

SECTION 8.5. *No Additional Waiver Implied by One Waiver.* If the Authority or the City breaches any agreement in this Lease Agreement and thereafter the other party waives the breach, such waiver is limited to the particular breach so waived and does not operate to waive any other breach hereunder.

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

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

## ARTICLE IX

### PREPAYMENT OF LEASE PAYMENTS

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

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

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

SECTION 9.2. *No Optional Prepayment.* The Lease Payments are not subject to optional prepayment by the City prior to their respective Lease Payment Dates.

SECTION 9.3. *Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain.* The City shall prepay the principal components of the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds of insurance award or eminent domain award with respect to the Leased Property which is required to be used for that purpose under Article VI hereof and Section 5.05 of the Indenture. Such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, will be credited towards the City's obligations under this Section and applied to the corresponding redemption of Bonds under Section 4.02 of the Indenture.

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

## ARTICLE X

### MISCELLANEOUS

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

*If to the City:* City of Palm Springs  
3200 East Tahquitz Canyon Way  
Palm Springs, California 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, California 92262  
Attn: Executive Director

*If to the Trustee:* U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services

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

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

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

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

SECTION 10.6. *Further Assurances and Corrective Instruments.* The Authority and the City shall, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further

instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease Agreement.

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

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

SECTION 10.9. *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 and for the City by an Authorized Representative thereof, and any party hereto may conclusively rely upon any such approval or request.

SECTION 10.10. *Captions.* The captions or headings in this Lease 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 and the City have caused this Lease Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

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

By \_\_\_\_\_  
David H. Ready  
Executive Director

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim Secretary

APPROVED AS TO FORM:

\_\_\_\_\_  
Authority Counsel

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

By \_\_\_\_\_  
David H. Ready  
City Manager

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim City Clerk

APPROVED AS TO FORM:

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



## **APPENDIX A**

### **DESCRIPTION OF THE LEASED PROPERTY**

The property constituting the Leased Property consists of the land located in the City of Palm Springs, County of Riverside, State of California, which is described as follows, including all buildings, improvements and facilities at any time situated thereon.

THAT PORTION OF PARCEL 2 OF PARCEL MAP 15576, IN THE CITY OF PALM SPRINGS, AS SHOWN BY MAP ON FILE IN BOOK 81 PAGE(S) 37 AND 38, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, LYING NORTH OF A LINE THAT IS PARALLEL WITH AND 350 FEET SOUTH FROM THE CENTERLINE OF TAHQUITZ-MC CALLUM WAY AS SAID CENTERLINE IS SHOWN ON SAID PARCEL MAP 15576.

## APPENDIX B

### SCHEDULE OF LEASE PAYMENTS

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment</u>
11/01/2017			
05/01/2018			
11/01/2018			
05/01/2019			
11/01/2019			
05/01/2020			
11/01/2020			
05/01/2021			
11/01/2021			
05/01/2022			
11/01/2022			
05/01/2023			
11/01/2023			
05/01/2024			
11/01/2024			
05/01/2025			
11/01/2025			
05/01/2026			
11/01/2026			
05/01/2027			

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

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# INDENTURE OF TRUST

Dated as of May 1, 2017

between

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

and the

**CITY OF PALM SPRINGS FINANCING AUTHORITY**

*Authorizing the Issuance of*

**\$ \_\_\_\_\_**  
**City of Palm Springs Financing Authority**  
**2017 Lease Revenue Refunding Bonds**

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## INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated for convenience as of May 1, 2017, 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 U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Los Angeles, California, being qualified to accept and administer the trusts hereby created (the "Trustee").

### BACKGROUND:

1. The City of Palm Springs (the "City") and the Authority have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds").

2. The 2007 Authority Bonds are secured by a pledge of and lien on certain lease payments made by the City under a Lease Agreement dated as of July 1, 2007 (the "2007 Lease Agreement"), between the Authority as lessor and the City as lessee of certain real property, consisting generally of the land and improvements which constitute the Resort Golf Course and the police building which is located within the City's municipal complex, as such real property is described more fully in Appendix A attached hereto and by this reference incorporated herein (the "Leased Property").

3. The 2007 Authority Bonds are currently subject to redemption on any date upon payment of the principal amount thereof together with accrued interest represented thereby to the redemption date, without premium.

4. The City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code.

5. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority and the City have entered into a Lease Agreement dated as of May 1, 2017 (the "Lease Agreement"), under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder which are sufficient to provide funds for the payment of debt service on the Bonds when due.

6. The lease payments made by the City under the Lease Agreement have been assigned by the Authority to the Trustee for the security of the Bonds under an

Assignment Agreement dated as of May 1, 2017, between the Authority as assignor and the Trustee as assignee.

7. 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 and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

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

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

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

### **ARTICLE I**

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

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

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

SECTION 1.03. *Interpretation.*

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



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

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

**ARTICLE II**

**THE BONDS**

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

The Authority hereby authorizes the issuance of Bonds under the Bond Law for the purpose of providing funds to refund the 2007 Authority Bonds. The Bonds shall be designated the "City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds" and shall be issued in the aggregate principal amount of \$\_\_\_\_\_. The Bonds are authorized and issued under and subject to the terms of this Indenture and the Bond Law.

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 May 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>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2018			2023		
2019			2024		
2020			2025		
2021			2026		
2022			2027		

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

purposes; and upon receipt of such a notice the Authority shall promptly deliver a copy of the same to the Trustee.

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

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

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

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

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

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

The Executive Director of the Authority shall execute, and the Interim 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.

### 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.* On the Closing Date, the Authority shall direct the Original Purchaser to pay the purchase price of the Bonds by making the following transfers for the following purposes:

- (a) The Original Purchaser shall transfer the amount of \$\_\_\_\_\_ to the Trustee for deposit into the Costs of Issuance Fund.
- (b) The Original Purchaser shall transfer the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds, to the 2007 Trustee for application pursuant to the Refunding Instructions.

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 of the Bonds upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon. On July 1, 2017, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Interest Account and shall thereupon close the Costs of Issuance Fund. Amounts so transferred to the Interest Account shall be applied by the Trustee to pay interest next coming due and payable on the Bonds.

SECTION 3.04. *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. *No Optional Redemption.* The Bonds are not subject to optional redemption prior to their respective stated maturity dates.

SECTION 4.02. *Special Mandatory Redemption From Insurance or Condemnation Proceeds.* The Bonds are subject to redemption as a whole, or in part by lot, on any date, from any Net Proceeds required to be used for such purpose as provided in Section 5.05, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

SECTION 4.03. *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 which 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 4.04. *Notice of Redemption.* 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 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.

SECTION 4.05. *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 4.06. *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 4.5, 5.10, 7.3 and 8.4 thereof). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease 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 Insurance and Condemnation Fund shall be promptly deposited in such fund. 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.

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

SECTION 5.04. *Application of Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

SECTION 5.05. *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.

(b) Application of Insurance Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City or the Authority in the event of any such accident or destruction shall be paid to the Trustee under Section 6.3 of the Lease Agreement and deposited by the Trustee promptly upon receipt thereof 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 applied by the Trustee to the redemption of Bonds under Section 4.02. Notwithstanding the foregoing sentence, however, if the Leased Property is damaged or destroyed in full, the Net Proceeds of such insurance shall be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to defease Outstanding Bonds equal in aggregate principal amount to the unpaid Lease Payments allocable to the Leased Property.

All proceeds deposited in the Insurance and Condemnation Fund and not so applied to redeem the Outstanding Bonds 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 and in each case, shall be fully protected in relying thereon.

(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 Authority shall deposit or cause to be deposited with the Trustee the Net Proceeds therefrom, which the Trustee shall deposit in the Insurance and Condemnation Fund under Section 6.2(b) of the Lease Agreement and which shall 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 apply such Net Proceeds to redeem Outstanding Bonds under Section 4.02.
- (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 Appendix C.

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

(d) Reliance on Independent Advice. In making any such determination whether to repair, replace or rehabilitate the Leased Property under this Section, 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 shall be filed with the Trustee. The Trustee has no duty to review or examine such report. Any such determination by the City is final.

SECTION 5.06. *Investments.* All moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority in a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments which constitute money market funds. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments shall 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. 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.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

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

*SECTION 5.07. 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 shall be valued at cost thereof, (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the Authority shall inform the Trustee which funds are subject to a yield restriction.

(c) Except for funds or accounts described in subsection (b), for the purpose of determining the amount in any fund or account established hereunder, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least annually on or before July 15. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section, 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 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 limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

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

SECTION 6.04. *Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized under law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned, respectively, under this Indenture and under the Assignment Agreement in the manner and to the extent provided in this Indenture and the Assignment Agreement. The Bonds and the provisions of this Indenture are and will be the legal, valid and

binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

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

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

SECTION 6.07. *Tax Covenants.*

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

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

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

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

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

period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e).

SECTION 6.08. *Enforcement of Lease Agreement.* 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 herein or in the Bonds contained affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

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

SECTION 7.08. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee, 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 to 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 Bond Owners of Default.* Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall promptly give written notice thereof by first class mail, postage prepaid, to the Owner of each Outstanding Bond, unless such Event of Default has been cured before the giving of such notice; *provided, however* that except in the case of an Event of Default described in Sections 7.01(a) or 7.01(b), the Trustee may elect not to give such notice to the Bond Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

## ARTICLE VIII

### THE TRUSTEE

SECTION 8.01. *Appointment of Trustee.* U.S. Bank National Association is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article, 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.
- (c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books.
- (d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. In the event of the removal or resignation of the Trustee under subsections (b) or (d), respectively, the Authority shall promptly appoint a successor Trustee.

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of

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

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

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

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

SECTION 8.04. *Liability of Trustee.*

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Bonds or the Lease 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 and Section 8.05, 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.

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

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

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the Authority or the City, and such Written Certificate, Written Request or Written Requisition shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture in reliance upon such Written Certificate, Written Request or Written Requisition, and the Trustee shall be fully protected in relying thereon, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

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

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any interest on advances), charges, legal (including outside counsel and the allocated costs of internal

attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or under the Assignment Agreement or the Lease Agreement. As security for the performance of the obligations of the Authority under this Section and the obligation of the Authority to make Additional Rental Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 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 Bond Owner Consent. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee. No such modification or amendment may (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) Amendments Without Owner Consent. This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture do not materially adversely affect the interests of the Bond Owners, including, without limitation, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;
- (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;
- (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or
- (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.

(c) Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's rights, duties or immunities hereunder or otherwise.

(d) Bond Counsel Opinion. 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.

(e) Notice of Amendments. The Authority shall deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section.

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 on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or
- (c) by delivering all of such Bonds to the Trustee for cancellation.

If the Authority also pays or causes to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to Section 10.02. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all

moneys or securities or other property held by it under this Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption. The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

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

SECTION 10.03. *Deposit of Money or Securities with Trustee.* Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under this Indenture and shall be:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or
- (b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the Authority) to apply such money to the payment of such principal and interest 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 two 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 two 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 Rental Payments and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02. *Limitation of Rights to Parties and Bond Owners.* Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

SECTION 11.03. *Funds and Accounts.* Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and

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

SECTION 11.04. *Waiver of Notice; Requirement of Mailed Notice.* Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

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

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

SECTION 11.07. *Notices.* All notices or communications to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by telephone, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the City:*

City of Palm Springs  
3200 East Tahquitz Canyon Way  
Palm Springs, California 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, California 92262  
Attn: Executive Director

*If to the Trustee:* U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
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.

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.

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 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 Interim Secretary, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**CITY OF PALM SPRINGS FINANCING  
AUTHORITY**

By \_\_\_\_\_  
David H. Ready, Esq. Ph.D.  
Executive Director

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim Secretary

APPROVED AS TO FORM:

\_\_\_\_\_  
Authority Counsel

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

By \_\_\_\_\_  
Linda Verstuyft  
Vice President

## APPENDIX A

### DEFINITIONS

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

“Assignment Agreement” means the Assignment Agreement dated as of May 1, 2017, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended.

“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, between the City and the Housing Authority of the City of Palm Springs, as amended, and under the laws of the State of California.

“Authorized Representative” means: (a) with respect to the Authority, its Chair, Executive Director, Treasurer, Interim Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chair, Executive Director, Treasurer or Secretary and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, City Manager, Finance Director, Interim City Clerk 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, Finance Director or City Clerk 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 Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code.

“Bond Year” means each twelve-month period extending from May 2 in one calendar year to May 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including May 1, 2018.

“Bonds” means the \$\_\_\_\_\_ aggregate principal amount of City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds 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 charter city and municipal corporation organized and existing under the Constitution and laws of the State of California.

“Closing Date” means May \_\_, 2017, being the date of delivery of the Bonds to the Original Purchaser.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds and the refunding of the 2007 Authority Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and their respective counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for title insurance; 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 and the refunding of the 2007 Authority 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.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee under Section 5.05.

"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 May 1 and November 1, commencing November 1, 2016, so long as any Bonds remain unpaid.

"Lease Agreement" means the Lease Agreement dated as of May 1, 2017, between the Authority as lessor and the City as lessee of the Leased Property, as amended from time to time in accordance with its terms.

"Lease Payment Date" means, with respect to any Interest Payment Date, the 5<sup>th</sup> Business Day immediately preceding such Interest Payment Date.

"Lease Payments" means the amounts payable by the City under Section 4.3(a) of the Lease 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 which constitute the Resort Golf Course and the police building which is located within the City's municipal complex.

"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 Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust business is conducted.

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

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

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

"Permitted Encumbrances" means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease Agreement; (b) the Site Lease, the Lease Agreement and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Stewart Title Guaranty Company; (e) the Wireless Communications Facilities Site Lease dated March 3, 2012, between the City and SMSA Limited Partnership, doing business as Verizon Wireless, and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

"Permitted Investments" means any of the following:

- (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.
- (c) Any direct or indirect obligations of an agency or department of the United States of America whose obligations represent the full faith and credit of the United States of America, or which are rated A or better by S&P.
- (d) Interest-bearing deposit accounts (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State of California banks (including the Trustee), provided that: (i) the unsecured obligations of such commercial bank or

savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation or are collateralized by Permitted Investments described in clauses (a), (b) or (c) above.

- (e) Commercial paper rated "A-1+" or better by S&P.
- (f) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "A-1+" or better by S&P.
- (g) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAm-G, AAAm or AAm, which funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services.
- (h) Obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by S&P, or (b) fully secured as to the payment of principal and interest by Permitted Investments described in clauses (a) or (b).
- (i) Obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P.
- (j) Bonds or notes issued by any state or municipality which are rated A or better by S&P at the time of purchase.
- (k) Any investment agreement with, or guaranteed by, a financial institution the long-term unsecured obligations or the claims paying ability of which are rated A or better by S&P at the time of initial investment, by the terms of which all amounts invested thereunder are required to be withdrawn and paid to the Trustee in the event either of such ratings at any time falls below A.
- (l) 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.

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

"Refunding Instructions" means the Irrevocable Refunding Instructions dated the Closing Date and executed by the City and the Authority, directing the 2007 Trustee to pay and prepay the 2007 Authority Bonds and to hold and apply the proceeds of the Bonds and other funds for such purpose.

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

"Revenues" means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease 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 any Additional Rental Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

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

"Site Lease" means the Site and Facilities Lease dated as of May 1, 2017, between the City as lessor and the Authority as lessee, as amended from time to time in accordance with its terms.

"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.

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

"2007 Authority Bonds" means the Authority's outstanding City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements), originally issued in the aggregate principal amount of \$20,365,000.

"2007 Trustee" means U.S. Bank National Association, its successors and assigns, as trustee for the 2007 Authority Bonds.

"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**

**2017 LEASE REVENUE REFUNDING BOND**

INTEREST RATE: \_\_\_\_\_%      MATURITY DATE: May 1, \_\_\_\_\_      ORIGINAL ISSUE DATE: May \_\_\_\_\_, 2017      CUSIP: \_\_\_\_\_

REGISTERED OWNER: CEDE & CO.

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

**SPECIMEN**

The CITY OF PALM SPRINGS FINANCING AUTHORITY, a public body corporate and politic 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, the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15<sup>th</sup> day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before October 15, 2016, 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 May 1 and May 1 in each year, commencing November 1, 2017 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof is payable upon presentation and surrender hereof at the corporate trust office of U.S. Bank National Association, in Los Angeles, California (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 2017 Lease Revenue Refunding Bonds (the "Bonds"), in an aggregate principal amount of \$ \_\_\_\_\_, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates) and all issued under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, and under an Indenture of Trust dated as of May 1, 2017, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on April 19, 2017, 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 certain outstanding Certificates of Participation of the City. This Bond and the interest hereon are special obligations of the Authority, payable from the Revenues, and secured by a charge and lien on the Revenues as defined in the Indenture, consisting principally of lease payments made by the City under a Lease Agreement dated as of May 1, 2017 (the "Lease Agreement"), between the Authority as lessor and the City as lessee. 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 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 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 are not subject to optional redemption prior to their respective stated maturity dates.



The Bonds are subject to redemption as a whole, or in part by lot, on any date, from the net proceeds or eminent domain or insurance award with respect to the property which is leased under the Lease Agreement and which are 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.

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 30 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. Notice of any optional redemption of the Bonds may be rescinded under the circumstances set forth in the Indenture, upon notice to the owners of such Bonds.

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

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

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

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the 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 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 Executive Director and attested to by the facsimile signature of its Interim Secretary, all as of the Original Issue Date specified above.

**CITY OF PALM SPRINGS FINANCING  
AUTHORITY**

By \_\_\_\_\_  
Executive Director

Attest:

\_\_\_\_\_  
Interim Secretary

**CERTIFICATE OF AUTHENTICATION**

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

Dated:

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

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

SPECIMEN

## ASSIGNMENT

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

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

Signature Guaranteed:

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

\_\_\_\_\_  
Note: The signature(s) on this Assignment shall 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.

## **IRREVOCABLE REFUNDING INSTRUCTIONS**

**Relating to  
\$20,365,000  
City of Palm Springs Financing Authority  
2007 Refunding Lease Revenue Bonds  
(Public Capital Improvements)**

These IRREVOCABLE REFUNDING INSTRUCTIONS (these "Instructions"), are dated May \_\_, 2017, and are given by the CITY OF PALM SPRINGS, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), and the CITY OF PALM SPRINGS FINANCING AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), to U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, acting as trustee for the 2007 Authority Bonds described below (the "2007 Trustee").

### *BACKGROUND:*

1. The Authority has previously issued its City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds") under a Trust Indenture dated as of July 1, 2007 (the "2007 Bond Indenture"), between the Authority and The Bank of New York Trust Company, N.A..

2. The 2007 Authority Bonds are currently subject to redemption on any date, and in order to provide funds required to redeem the 2007 Authority Bonds in full the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the "Refunding Bonds") under an Indenture of Trust dated as of May 1, 2017, between the Authority and U.S. Bank National Association, as trustee.

3. U.S. Bank national Association has been appointed to act as successor trustee for the 2007 Authority Bonds and, as such, currently serves as the 2007 Trustee.

4. At the written direction of the Authority, the 2007 Trustee has previously given notice of the redemption of the 2007 Authority Bonds on May \_\_, 2017 (the "Redemption Date"), pursuant to and in accordance with Section 4.01 of the 2007 Bond Indenture, at the expense of the Authority.

5. The City and the Authority wish to give these Instructions to the 2007 Trustee for the purpose of providing for the deposit and application of funds to pay the redemption price of the 2007 Authority Bonds coming due on the Redemption Date.

**INSTRUCTIONS:**

In order to provide for the payment and redemption of the 2007 Authority Bonds and to discharge the 2007 Authority Bonds, the Authority and the City hereby irrevocably direct the 2007 Trustee as follows:

SECTION 1. *Deposit of Funds.* The 2007 Trustee is directed to deposit into the Redemption Account which is established under Section 5.07 of the 2007 Bond Indenture (the "Redemption Account"), on the date hereof, the amount of \$\_\_\_\_\_ in immediately available funds, to be derived from the proceeds of the Refunding Bonds.

SECTION 2. *Non-Investment of Amounts.* The 2007 Trustee shall hold the amounts deposited into the Redemption Fund under Section 1 in cash, uninvested. The 2007 Trustee shall have no lien upon or right of set off against the cash at any time on deposit in the Redemption Fund.

SECTION 3. *Irrevocable Election to Redeem 2007 Authority Bonds; Redemption Notice.* The Authority has previously notified the 2007 Trustee of its irrevocable election to redeem all of the outstanding 2007 Authority Bonds on the Redemption Date pursuant to Section 4.01(a) of the 2007 Bond Indenture. Pursuant to the written direction of the Authority, the 2007 Trustee has previously given notice of such redemption of the 2007 Bonds in accordance with Section 4.01(d) of the 2007 Authority Bonds. The City and the Authority hereby ratify and approve all actions taken in respect of the redemption of the 2007 Authority Bonds on the Redemption Date.

SECTION 4. *Application of Amounts in Redemption Fund.* The 2007 Trustee shall apply the amounts on deposit in the Redemption Fund for the purpose of paying the principal of and interest on the 2007 Authority Bonds upon the redemption thereof in accordance with the following schedule:

<u>Payment Date</u>	<u>Interest</u>	<u>Redeemed Principal</u>	<u>Total Payment</u>
June __, 2017			

Following the redemption of the 2007 Authority Bonds in full on the Redemption Date, the 2007 Trustee shall transfer any amounts remaining on deposit in the Redemption Fund to U.S. Bank National Association, as trustee for the Refunding Bonds, to be applied to pay interest next coming due and payable on the Refunding Bonds.

SECTION 5. *Compensation to 2007 Trustee.* The City and the Authority shall pay the 2007 Trustee full compensation for its services under these Instructions, including out-of-pocket costs such as publication costs, legal fees and expenses, and other costs and expenses relating hereto. Under no circumstances shall the cash deposited in or credited to the Redemption Fund be deemed to be available for said purposes. The 2007 Trustee has no lien upon or right of set off against the cash at any time on deposit in the Redemption Fund.

The City and the Authority shall indemnify, defend and hold harmless the 2007 Trustee and its officers, directors, employees, representatives and agents, from and against and reimburse the 2007 Trustee for any and all claims, obligations, liabilities, losses, damages, actions, suits, judgments, reasonable costs and expenses (including

reasonable attorneys' and agents' fees and expenses) of whatever kind or nature regardless of their merit, demanded, asserted or claimed against the 2007 Trustee directly or indirectly relating to, or arising from, claims against the 2007 Trustee by reason of its participation in the transactions contemplated hereby, except to the extent caused by the 2007 Trustee's gross negligence or willful misconduct. The provisions of this Section shall survive the termination of these Instructions or the earlier resignation or removal of the 2007 Trustee.

SECTION 6. *Immunities and Liability of 2007 Trustee.* The 2007 Trustee undertakes to perform only such duties as are expressly set forth in these Instructions and no implied duties, covenants or obligations shall be read into these Instructions against the 2007 Trustee. The 2007 Trustee shall not have any liability hereunder except to the extent of its gross negligence or willful misconduct. In no event shall the 2007 Trustee be liable for any special, indirect or consequential damages. The 2007 Trustee shall not be liable for any loss from any investment made by it in accordance with the terms of these Instructions. The 2007 Trustee may consult with legal counsel of its own choice and the 2007 Trustee shall not be liable for any action taken or not taken by it in good faith in reliance upon the opinion or advice of such counsel. The 2007 Trustee shall not be liable for the recitals or representations contained in these Instructions and shall not be responsible for the validity of these Instructions, the sufficiency of the Redemption Fund or the moneys to pay the accreted value of the 2007 Authority Bonds upon the redemption thereof.

Whenever in the administration of these Instructions the 2007 Trustee deems it necessary or desirable that a matter be proved or established prior to taking or not taking any action, such matter may be deemed to be conclusively proved and established by a certificate of an authorized representative of the City and the Authority and shall be full protection for any action taken or not taken by the 2007 Trustee in good faith reliance thereon.

The 2007 Trustee may conclusively rely as to the truth and accuracy of the statements and correctness of any opinions or calculations provided to it in connection with these Instructions and shall be protected in acting, or refraining from acting, upon any notice, instruction, request, certificate, document, opinion or other writing furnished to the 2007 Trustee in connection with these Instructions and believed by the 2007 Trustee to be signed by the proper party, and it need not investigate any fact or matter stated therein.

None of the provisions of these Instructions shall require the 2007 Trustee to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder. The 2007 Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed. The 2007 Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the 2007 Trustee and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The 2007 Trustee may at any time resign by giving 30 days written notice of resignation to the City and the Authority. Upon receiving such notice of resignation, the City and the Authority shall promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning 2007 Trustee from its obligations hereunder by written instrument, a copy of which instrument shall be delivered to each of the City and the Authority, the resigning 2007 Trustee and the successor. If no successor shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning 2007 Trustee may petition any court of competent jurisdiction for the appointment of a successor.

Any bank, corporation or association into which the 2007 Trustee may be merged or converted or with which it may be consolidated, or any bank, corporation or association resulting from any merger, conversion or consolidation to which the 2007 Trustee shall be a party, or any bank, corporation or association succeeding to all or substantially all of the corporate trust business of the 2007 Trustee shall be the successor of the 2007 Trustee hereunder without the execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except on the part of any of the parties hereto where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

The 2007 Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to these Instructions and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the 2007 Trustee, or another method or system specified by the 2007 Trustee as available for use in connection with its services hereunder); *provided, however*, that the City and the Authority shall provide to the 2007 Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the City and the Authority whenever a person is to be added or deleted from the listing. If the City and the Authority elects to give the 2007 Trustee Instructions using Electronic Means and the 2007 Trustee in its discretion elects to act upon such Instructions, the 2007 Trustee's understanding of such Instructions shall be deemed controlling. The City and the Authority understands and agrees that the 2007 Trustee cannot determine the identity of the actual sender of such Instructions and that the 2007 Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the 2007 Trustee have been sent by such Authorized Officer. The City and the Authority shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the 2007 Trustee and that the City and the Authority and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City and the Authority. The 2007 Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the 2007 Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The City and the Authority agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the 2007 Trustee, including without limitation the risk of the 2007 Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully

informed of the protections and risks associated with the various methods of transmitting Instructions to the 2007 Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City and the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the 2007 Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

SECTION 7. *Amendment.* These Instructions may be amended by the parties hereto, but only if there shall have been filed with the City and the Authority and the 2007 Trustee a written opinion of Bond Counsel stating that such amendment will not materially adversely affect the interests of the owners of the 2007 Authority Bonds or the Refunding Bonds, and that such amendment will not cause interest on the 2007 Authority Bonds or the Refunding Bonds to become includable in the gross income of the owners thereof for federal income tax purposes.

SECTION 8. *Termination of Agreement.* Upon payment in full of the accreted value of the 2007 Authority Bonds upon the redemption thereof, and upon payment of all fees, expenses and charges of the 2007 Trustee as described above, these Instructions shall terminate and the 2007 Trustee shall be discharged from any further obligation or responsibility hereunder.

SECTION 9. *Execution in Counterparts.* These Instructions 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 10. *Applicable Law.* These Instructions shall be governed by and construed in accordance with the laws of the State of California.

**CITY OF PALM SPRINGS**

By \_\_\_\_\_  
David H. Ready, Esq., Ph.D.  
City Manager

APPROVED AS TO FORM:

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

**CITY OF PALM SPRINGS FINANCING  
AUTHORITY**

By \_\_\_\_\_  
David H. Ready, Esq., Ph.D.  
Executive Director

APPROVED AS TO FORM:

\_\_\_\_\_  
Authority Counsel

ACCEPTED:  
**U.S. BANK NATIONAL  
ASSOCIATION,**  
*as 2007 Trustee*

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

WHEN RECORDED, RETURN TO:

Jones Hall, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Attention: Charles F. Adams

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 for convenience as of May 1, 2017, 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 U.S. BANK NATIONAL ASSOCIATION, as Trustee, a national banking association (the "Trustee").

### *BACKGROUND:*

1. The City of Palm Springs (the "City") and the Authority have previously refinanced outstanding obligations of the City which were issued to finance public capital improvements, from the proceeds of the City of Palm Springs Financing Authority 2007 Lease Revenue Refunding Bonds (Public Capital Improvements) which have been issued by the Authority in the aggregate principal amount of \$20,365,000 (the "2007 Authority Bonds").

2. The City and the Authority have determined that it is in their financial interests at this time to refinance the 2007 Authority Bonds, and in order to provide funds for that purpose the Authority has authorized the issuance of its City of Palm Springs Financing Authority 2017 Lease Revenue Refunding Bonds in the aggregate principal amount of \$\_\_\_\_\_ under the Indenture of Trust dated as of May 1, 2017 (the "Indenture"), between the Authority and the Trustee, and under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code.

3. The Bonds are secured by a pledge of revenues consisting primarily of lease payments to be made by the City under a Lease Agreement dated as of May 1, 2017 (the "Lease Agreement"), which has been recorded concurrently herewith, under which the Authority has leased certain real property to the City as more particularly described in Appendix A attached hereto and by this reference incorporated herein (the "Leased Property").

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

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

- (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 with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property; and
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under Section 5.06 of the Indenture, or (ii) otherwise to protect the interests of the Bond Owners in the event of a default by the City under the Lease Agreement.

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

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

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

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

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

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

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.

**CITY OF PALM SPRINGS FINANCING  
AUTHORITY**

By \_\_\_\_\_  
David H. Ready, Esq., PhD.  
Executive Director

Attest:

\_\_\_\_\_  
Kathie Hart  
Interim Secretary

APPROVED AS TO FORM:

\_\_\_\_\_  
Authority Counsel

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

By \_\_\_\_\_  
Linda Verstuyft  
Vice President

## **EXHIBIT A**

### **DESCRIPTION OF THE LEASED PROPERTY**

The property constituting the Leased Property consists of the land located in the City of Palm Springs, County of Riverside, State of California, which is described as follows, including all buildings, improvements and facilities at any time situated thereon.

THAT PORTION OF PARCEL 2 OF PARCEL MAP 15576, IN THE CITY OF PALM SPRINGS, AS SHOWN BY MAP ON FILE IN BOOK 81 PAGE(S) 37 AND 38, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, LYING NORTH OF A LINE THAT IS PARALLEL WITH AND 350 FEET SOUTH FROM THE CENTERLINE OF TAHQUITZ-MC CALLUM WAY AS SAID CENTERLINE IS SHOWN ON SAID PARCEL MAP 15576.

\$ \_\_\_\_\_  
**CITY OF PALM SPRINGS FINANCING AUTHORITY**  
\$ \_\_\_\_\_ **2017 LEASE REVENUE REFUNDING BONDS**

**BOND PURCHASE AGREEMENT**

May \_\_, 2017

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 Stifel, Nicolaus & Company Incorporated (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 this "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 parties hereto. By execution of this Purchase Agreement, the Authority, the City and the Underwriter acknowledge the terms hereof and recognize that they will be bound by certain of the provisions hereof, and to the extent binding thereupon, acknowledge and agree to such terms. 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).

The City and Authority acknowledge and agree that: (i) the purchase and sale of the Bonds (defined herein), pursuant to this Purchase Agreement is an arm's-length commercial transaction between the City and the Authority, on one hand, and the Underwriter, on the other; (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 principal and is not acting as a Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended); (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); (iv) the Underwriter has financial and other interests that differ from those of the City and the Authority; and (v) the City and the Authority have consulted their own legal, financial and other advisors to the extent they have deemed appropriate.

**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 2017 Lease Revenue Refunding Bonds (the "Bonds"). The Bonds will be dated as of their date of delivery. Interest on the Bonds shall be payable semiannually in each year on November 1 and June 1, commencing November 1, 2017 (each an "Interest Payment Date"), 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 \$ \_\_\_\_\_, [plus/less] an original issue [premium] [discount] in the amount of \$ \_\_\_\_\_, less an Underwriter's discount of \$ \_\_\_\_\_).

The Underwriter agrees to make a bona fide public offering of the Bonds at the initial offering yields set forth in the Official Statement (defined herein); however, the Underwriter reserves the right to make concessions to dealers and to change such initial offering yields as the Underwriter shall deem necessary in connection with the marketing of the Bonds. The Underwriter agrees that, in connection with the public offering and initial delivery of the Bonds to the purchasers thereof from the Underwriter, the Underwriter will deliver or cause to be delivered to each purchaser a copy of the final Official Statement prepared in connection with the Bonds, for the time period required under Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Terms defined in the Official Statement are used herein as so defined.

**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 June 1, 2017 (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 June 1, 2017 (the "Assignment Agreement"), by and between the Authority and U.S. Bank National Association, as 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 June 1, 2017 (the "Indenture"), by and between the Authority and the Trustee.

The Bonds are being issued to refinance an existing lease relating to the City's outstanding 2007 Lease Refunding Revenue Bonds (Public Capital Improvements) and to pay the costs of issuing 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 it deems 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 \_\_\_\_\_, 2017 (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 authorized officers of the City deemed "final" as of its date, for purposes of 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 on its Electronic Municipal Markets Access ("EMMA") system 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 EMMA.

**Section 5. Closing.** At 8:00 a.m., California time, on June \_\_, 2017, 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 June 1, 2017 (the "Site Lease"), by and between the City and the Authority, the Lease Agreement, the Indenture, the Assignment Agreement, the Irrevocable Refunding Instructions, dated \_\_\_\_\_, 2017 (the "Refunding Instructions"), given by the City and the Authority to The Bank of New York Mellon Trust Company, N.A., as trustee (the "Prior Trustee") for the 2007 Lease Refunding Revenue Bonds (the "Prior Bonds") under the Indenture of Trust for the Prior Bonds (the "Prior Trust Agreement"), and this Purchase Agreement. The Site Lease, Lease Agreement, Indenture, Assignment Agreement and Refunding Instructions are collectively referred to herein as 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 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 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, the Refunding Instructions 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 refinancing the Prior Certificates.

(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 receipts, expenditures and cash balances of the City as of June 30, 2016 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, 2016 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 enumerated 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 Municipal 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;

(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, 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," "THE FINANCING PLAN," "THE LEASED PROPERTY," "SOURCES OF PAYMENT FOR THE BONDS," and "LEGAL MATTERS – Tax Exemption," and in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" and "APPENDIX D – PROPOSED FORM OF BOND COUNSEL 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, the Refunding Instructions 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 and the Refunding Instructions have been duly authorized, executed and delivered by the City and the Authority and are the valid, legal and binding agreements of the City and the Authority enforceable in accordance with their terms, except that the rights and obligations under the Purchase Agreement and the Refunding Instructions 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 ratings on the Bonds are as described in the Official Statement;

(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 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 the 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 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 the 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 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 Norton Rose Fulbright US 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 Municipal Advisor in form and substance acceptable to the City and the Underwriter;

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

(A) the Prior Trustee is a national banking association duly organized and validly existing under the laws of the United States of America, having full corporate power to undertake the duties created under the Refunding Instructions and the Prior Trust Agreement;

(B) the Refunding Instructions have been duly authorized, executed and delivered by the Prior Trustee and, assuming due authorization, execution and delivery by the other parties thereto, the Refunding Instructions constitute the valid, legal and binding obligation of the Prior 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 Prior Trustee's actions in executing and delivering the Refunding Instructions 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 Prior Trustee is a party or any administrative or judicial decision by which the Prior Trustee is bound; 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 Prior Trustee that has not been obtained is or will be required for

the consummation by the Prior Trustee of its obligations under the Refunding Instructions and the Prior Trust Agreement.

(xvi) a certificate, dated the date of Closing, signed by a duly authorized official of the Prior Trustee satisfactory in form and substance to the Underwriter, to the effect that:

(A) the Prior Trustee is duly organized and existing as a national banking association under the laws of the United States, having the full corporate power and authority to enter into and perform its duties under the Refunding Instructions and the Prior Trust Agreement;

(B) the Prior Trustee is duly authorized to enter into the Refunding Instructions and have duly executed and delivered the Refunding Instructions, and assuming due authorization and execution by the other parties thereto, the Refunding Instructions are legal, valid and binding upon the Prior Trustee and enforceable against such party in accordance with their terms; and

(C) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Prior Trustee that has not been obtained is required for the consummation by the Prior Trustee of its obligations under the Refunding Instructions and the Prior Trust Agreement.

(xvii) 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;

(xviii) a copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book-entry system;

(xix) the tax and nonarbitrage certificate by the Authority and the City relating to the Bonds in form and substance to the reasonable satisfaction of Bond Counsel and the Underwriter;

(xx) a title policy in form and substance acceptable to Bond Counsel, the Underwriter and Underwriter's Counsel;

(xxi) evidence of insurance in compliance with the requirements of the Lease Agreement in form and substance acceptable to the Underwriter;

(xxii) an opinion Stradling Yocca Carlson & Rauth, a Professional Corporation ("Underwriter's Counsel") in form and substance acceptable to the Underwriter;

(xxiii) a certificate, dated the date of the Preliminary Official Statement, of the City, as required under Rule 15c2-12;

(xxiv) a certificate, dated the date of the Preliminary Official Statement, of the Authority, as required under Rule 15c2-12;

(xxv) 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

(xxvi) 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 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 EMMA. 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 and Prior Trustee, including fees and disbursements of its counsel, if any, fees and disbursements of Bond Counsel, Disclosure Counsel and other professional advisors employed by the Authority or the City, title insurance, 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 Stifel Nicolaus & Company, Incorporated, One Montgomery Street, 37th Floor, San Francisco, California 94104, Attention: Sara Brown, Managing Director. 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: 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.

[Remainder of page intentionally left blank.]

**Section 14. Governing Law.** This Purchase Agreement shall be governed by and construed in accordance with the laws of the State of California.

STIFEL NICOLAUS & COMPANY, INCORPORATED

By: \_\_\_\_\_  
Managing Director

Accepted:

CITY OF PALM SPRINGS  
FINANCING AUTHORITY

APPROVED AS TO FORM

By: \_\_\_\_\_  
Executive Director  
Time of Execution: \_\_\_\_\_.m. Pacific Time

\_\_\_\_\_  
Bond Counsel

Accepted:

CITY OF PALM SPRINGS

APPROVED AS TO FORM

By: \_\_\_\_\_  
City Manager  
Time of Execution: \_\_\_\_\_.m. Pacific Time

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

APPROVED AS TO FORM

\_\_\_\_\_  
Harrell & Company Advisors



**EXHIBIT A**

**MATURITY SCHEDULE**

**CITY OF PALM SPRINGS FINANCING AUTHORITY  
\$ \_\_\_\_\_ 2017 LEASE REVENUE REFUNDING BONDS**

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