

**TO BE RECORDED AND WHEN RECORDED
RETURN TO:**

Jones Hall,
A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: William H. Madison, Esq.

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

LEASE AGREEMENT

Dated as of December 1, 2013

by and between the

**PUBLIC PROPERTY FINANCING CORPORATION OF CALIFORNIA,
as Lessor**

and the

CITY OF SANTA ROSA, as Lessee

(Fire Station Project)

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EXHIBIT A: DEFINITIONS
EXHIBIT B: DESCRIPTION OF LEASED PROPERTY
EXHIBIT C: SCHEDULE OF LEASE PAYMENTS

LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease Agreement"), dated for convenience as of December 1, 2013, is by and between the PUBLIC PROPERTY FINANCING CORPORATION OF CALIFORNIA, a nonprofit public benefit corporation, organized and existing under the laws of the State of California, as lessor (the "Corporation"), and the CITY OF SANTA ROSA, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California, as lessee (the "City").

WITNESSETH:

WHEREAS, the City desires to finance the acquisition and construction of a new fire station go be located at the southeast corner of Newgate and Fountaingrove Parkway in the City (the "Project") and in connection with such financing the City has, pursuant to a Site Lease, dated as of December 1, 2013 (the "Site Lease"), leased to the Corporation the City's existing Fire Station No. 3, located at 3311 Coffey Lane, Fire Station #4, located at 1775 Yulupa Avenue, Fire Station #5, located at 3480 Parker Hill Road, and Fire Station #11, located at 550 Lewis Road, all in the City, more particularly described in Exhibit B attached hereto and made a part hereof, or any property substituted therefor in accordance with Section 8.3(a) hereof (the "Leased Property");

WHEREAS, the Corporation proposes to lease the Leased Property back to the City pursuant to this Lease Agreement, and to assign certain of its rights and interests hereunder to Compass Bank, an Alabama banking corporation (the "Bank"), pursuant to that certain Assignment Agreement, dated as of December 1, 2013, by and between the Corporation and the Bank;

WHEREAS, the proceeds of the Assignment will be deposited with U.S. Bank National Association (the "Custodian") pursuant to the Custodian Agreement and deposited into the Project Fund, and applied to (i) finance the costs of the acquisition and construction of the Project, and (ii) pay costs of issuance incurred in connection with the execution and delivery of the Lease Agreement.

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1. Definitions. The terms defined in Exhibit A attached hereto and by this reference incorporated herein, as used and capitalized herein, shall, for all purposes of this Lease Agreement, have the meanings ascribed to them in said Exhibit A unless the context clearly requires some other meaning.

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

Exhibit A: Definitions.

Exhibit B: The description of the Leased Property.

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

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

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

(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, has full legal right, power and authority under the laws of the State to enter into this Lease Agreement, the Site Lease and the Custodian Agreement, and to carry out and consummate all transactions on its part contemplated hereby and thereby, and by proper action the City has duly authorized the execution and delivery of this Lease Agreement, the Site Lease and the Custodian Agreement.

(b) *Due Execution*. The representatives of the City executing this Lease Agreement, the Site Lease and the Custodian Agreement have been fully authorized to execute the same pursuant to a resolution duly adopted by the City Council of the City.

(c) *Valid, Binding and Enforceable Obligations*. This Lease Agreement, the Site Lease and the Custodian 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 this Lease Agreement, the Site Lease and the Custodian Agreement, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, 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 this Lease Agreement, the Site Lease, the Lease Agreement and the Custodian 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 this Lease Agreement, the Site Lease and the Custodian Agreement, or the consummation of any transaction on the part of the City 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 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 on the part of the City contemplated by or the validity of this Lease Agreement, the Site Lease and the Custodian 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 on the part of the City contemplated by this Lease Agreement, the Site Lease and the Custodian Agreement, or the financial conditions, assets, properties or operations of the City.

(g) *Status of Property.* The Leased Property is fully functional, operational, and in sound condition.

(h) *City's Financial Position.* The statement of financial position of the City as of June 30, 2012, and the related statement of activities and statement of cash flows and changes in financial position for the year then ended and the auditors' reports with respect thereto, copies of which have heretofore been furnished to the Bank, are complete and correct and fairly present the financial condition, changes in financial position and results of operations of the City at such date and for such period, and were prepared in accordance with generally accepted accounting principles. Since the period of such statements, there has been no (i) change which would have a Material Adverse Effect and (ii) no material increase in the indebtedness of the City.

(i) *No Default.* The City has not defaulted or failed to appropriate funds for any of its financial obligations.

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

(a) *Due Organization and Existence.* The Corporation is a nonprofit public benefit corporation, organized and existing under and by virtue of the laws of the State; has power to enter into the Site Lease, this Lease Agreement, the Assignment Agreement and the Custodian Agreement; is possessed of full power to own and hold, improve and equip real and personal property and to

lease and sell the same; has duly authorized the execution and delivery of all of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the Corporation, enforceable against the Corporation in accordance with their respective terms.

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

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

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

(e) *Execution and Delivery.* The Corporation has duly authorized and executed this Lease Agreement in accordance with all applicable laws.

(f) *Consents and Approvals.* No consent or approval of any trustee or holder of any indebtedness of the Corporation, 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 and the Custodian Agreement, or the consummation of any transaction on the part of the Corporation herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(g) *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 Corporation after reasonable investigation, threatened against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material and adverse effect upon the consummation of the transactions on the part of the Corporation

contemplated by or the validity of this Lease Agreement, the Site Lease, the Assignment Agreement or the Custodian Agreement, or upon the financial condition, assets, properties or operations of the Corporation, and the Corporation 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 Custodian Agreement or the financial conditions, assets, properties or operations of the Corporation.

ARTICLE III

DEPOSIT OF MONEYS

Section 3.1. Deposit of Moneys. On the Closing Date, the Bank shall cause to be deposited with the Custodian the proceeds of the Assignment in the amount of \$_____. Pursuant to the Custodian Agreement, (a) amounts estimated to be required to pay Costs of Issuance shall be deposited in the Costs of Issuance Account, and (b) the remainder of said proceeds shall be deposited in the the Project Fund.

Section 3.2. Payment of Acquisition and Construction Costs. Payment of Acquisition and Construction Costs shall be made from the moneys deposited in the Project Fund, which moneys shall be held and disbursed for such purpose in accordance and upon compliance with the Custodian Agreement.

Section 3.3. Payment of Costs of Issuance. Payment of Costs of Issuance shall be made from the moneys deposited in the respective accounts within the Costs of Issuance Account, which moneys shall be disbursed for such purpose in accordance and upon compliance with the Custodian Agreement.

ARTICLE IV

AGREEMENT TO LEASE; TERM OF THIS LEASE AGREEMENT; LEASE PAYMENTS

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

Section 4.2. Term of Agreement. The Term of this Lease Agreement shall commence on the Closing Date, and shall end on _____, unless such term is extended as hereinafter provided. If, on _____, the Lease Agreement 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 there has been deposited with the Bank an amount sufficient to pay all obligations due under this Lease Agreement, but in no event shall the Term of this Lease Agreement extend beyond _____.

Section 4.3. Possession. The Corporation has agreed to lease the Leased Property from the City on the Closing Date under and pursuant to the Site Lease. The City hereby agrees to accept and take possession of the Leased Property, pursuant to this Lease Agreement, on the Closing Date. The first Lease Payment shall be due on _____.

Section 4.4. Lease Payments.

(a) *Obligation to Pay*. Subject to the provisions of Articles VI and X, the City agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Leased Property during each Rental Period, the Lease Payments (denominated into components of principal and interest (with interest calculated on the basis of a 360-day year comprised of 30-day months)) in the respective amounts specified in Exhibit C hereto, to be due and payable on the respective Lease Payment Dates specified in Exhibit C hereto. The Lease Payment for the Leased Property payable during any Rental Period shall be for the use of the Leased Property for such Rental Period.

(b) *Effect of Prepayment*. In the event that the City prepays all remaining Lease Payments in full pursuant to Article X, the City's obligations under this Lease Agreement shall thereupon cease and terminate including, but not limited to, the City's obligation to pay Lease Payments under this Section 4.4; subject however, to the provisions of Section 10.1 in the case of prepayment by application of a security deposit. In the event that the City optionally prepays the Lease Payments in part but not in whole pursuant to Section 10.2 or pursuant to Section 10.3 as a result of any insurance or condemnation award with respect to any portion of the Leased Property, such prepayment shall be credited entirely towards the prepayment of the Lease Payments as follows: (i) the principal components of each remaining such Lease Payments shall be reduced in such order as shall be designated by the City (and in lieu of any designation, in inverse order of payment date) in integral multiples of \$5,000; and (ii) the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the principal component thereby prepaid.

(c) *Rate on Overdue Payments.* In the event the City should fail to make any of the payments required in this Section 4.4, and such nonpayment shall not be cured within 10 days of the Lease Payment Date such Lease Payment was due, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the aggregate rate of: (1) rate of interest then payable under the terms hereof; plus (2) 5%.

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

(e) *Source of Payments; Budget and Appropriation.* Lease Payments shall be payable from any source of available moneys of the City, subject to the provisions of Articles VI and X. During the Term of this Lease Agreement, the City shall furnish to the Bank no later than August 1 of each year, following written request by the Bank to the City, a certificate stating that the City has included the Lease Payments due in that Fiscal Year in the budget that has been approved by the City Council of the City for such Fiscal Year.

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

(f) *Assignment.* The City understands and agrees that all Lease Payments have been assigned by the Corporation to the Bank pursuant to the Assignment Agreement, and the City hereby assents to such assignment. The Corporation hereby directs the City, and the City hereby agrees to pay to the Bank at the office of the Bank, all payments payable by the City pursuant to this Section 4.4, and all amounts payable by the City pursuant to Article X.

Section 4.5. Quiet Enjoyment. During the Term of this Lease Agreement, the Corporation shall provide the City with quiet use and enjoyment of the Leased Property, and the City shall, during such Term, peaceably and quietly have and hold and enjoy the Leased Property without suit, trouble or hindrance from the Corporation, except as expressly set forth in this Lease Agreement. The Corporation will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the

Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation shall have the right to inspect the Leased Property as provided in Section 7.2.

Section 4.6. Title. During the Term of this Lease Agreement, the City shall hold fee title to the Leased Property and any and all additions which comprise fixtures, repairs, replacements or modifications to the Leased Property, except for those fixtures, repairs, replacements or modifications which are added to the Leased Property by the City at its own expense and which may be removed without damaging the Leased Property pursuant to Section 5.9.

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

Section 4.7. Additional Payments. The City shall pay, when due, all costs and expenses incurred by the City and the Corporation to comply with the provisions of the Custodian Agreement, or otherwise arising from the financing of the Project, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the respective accounts within the Costs of Issuance Account), compensation, reimbursement and indemnification due to the Bank, and all costs and expenses of the City and auditors, engineers, attorneys and accountants.

Notwithstanding any other provision of this Section 4.7, the City shall pay such additional amounts of rent during any period only to the extent that any such payment, when added to Lease Payments due and owing during such period, will not exceed the fair rental value of the Leased Property for such period.

Section 4.8. No Withholding. Notwithstanding any dispute between the Corporation and the City, the City shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; USE LIMITATIONS; AND OTHER MATTERS

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

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

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

Section 5.2. Modification of Leased Property. The City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All additions, modifications and improvements to the Leased Property shall thereafter comprise part of the Leased Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property, substantially alter its nature, cause the interest component of Lease Payments to be subject to federal income taxes 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 pursuant to this Section 5.2, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions, modifications

and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to this Section 5.2; provided that if any such lien is established and the City shall first notify the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Section 5.3. Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of this Lease Agreement, insurance policies, including a standard comprehensive general liability insurance policy or policies in protection of the City, the Corporation and the Bank, including their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City, with the Bank's written consent. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Section 5.4. Fire and Extended Coverage Insurance. The City shall maintain, or cause to be maintained throughout the Term of this Lease Agreement, insurance against loss or damage to any part of improvements constituting a portion of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the lesser of (a) one hundred percent (100%) of the replacement cost of improvements constituting a portion of the Leased Property, or (b) the aggregate principal amount of the Lease Payments. Such policy may be subject to such deductibles as the City shall deem prudent, provided that such policy must expressly waive any co-insurance penalty. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The Net Proceeds of such insurance shall be applied as provided in Section 6.2(a).

Section 5.5. Rental Interruption Insurance. The City shall maintain, or cause to be 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 part of the improvements constituting a portion of the Leased Property during the Term of this Lease Agreement 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 unpaid Lease Payments due in any twenty-four (24) month period. The Net Proceeds of such insurance shall be applied towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Section 5.6. Title Insurance. The Corporation shall provide, from moneys in the Costs of Issuance Account or at its own expense, on the Closing Date, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Lease Payments, insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances. The Net Proceeds of such title insurance shall be applied as provided in Section 6.2(c).

Section 5.7. Insurance Net Proceeds; Form of Policies. Each policy or other evidence of insurance required by Sections 5.4, 5.5 and 5.6 shall list the Bank as a co-insured party, and shall provide that all proceeds thereunder shall be payable to the Bank as and to the extent required hereunder and shall be applied as provided in Section 6.2. All required insurance policies shall be provided by a commercial insurer rated "A" by A.M. Best & Company or rated in one of the two highest rating categories by Moody's and S&P. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease Agreement; provided that the Corporation shall, upon written demand of the City's Chief Financial Officer, reimburse the City from any lawfully available funds of the Corporation for any costs of insurance required under this Lease Agreement that are attributable to increased costs of insurance, over that normally carried by the City, due to the Certificate financing program. The Bank shall not be responsible for the sufficiency of any insurance herein required, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

Annually not later than July 1 in each year during the Term of this Lease Agreement, the City shall furnish or cause to be furnished to the Bank evidence of all insurance policies required to be maintained by this Article V, which may consist of a certificate describing material terms of such policies.

In the event that any insurance maintained pursuant to Section 5.3 shall be provided in the form of self-insurance, then (a) the City shall maintain reserve balances with respect thereto which are held by an independent trustee, (b) such self-insurance program shall be maintained by the City on an actuarially sound basis, (c) the City shall obtain, and file with the Bank annually not later than July 1 in each year, the opinion of an independent insurance consultant engaged by the City approving the program of self-insurance and stating that the reserve balances with respect thereto are sufficient, and (d) in the event the self-insurance program is discontinued at any time, the actuarial soundness of the reserve balances shall be maintained.

Section 5.8. Advances. If the City shall fail to perform any of its obligations under this Article V, the Corporation may, but shall not be obligated to, take such action as may be

necessary to cure such failure, including the advancement of money, and the City shall be obligated to repay all such advances as soon as possible, with interest at the rate of twelve percent (12%) per annum (or such lesser rate as agreed to by the Corporation) from the date of the advance to the date of repayment.

Section 5.9. Installation of City's Equipment. The City may, at any time and from time to time in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Leased Property. All such items shall remain the sole property of the City in which neither the Corporation nor the Bank shall have any interest and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to this Section 5.9 under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

Section 5.10. Liens. The City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Corporation and the City as provided herein and Permitted Encumbrances. Except as expressly provided in this Article V, the City shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Section 5.11. Private Activity Bond Limitation The City shall assure that proceeds of the Assignment of the Lease Payments are not so used as to cause the Lease Agreement to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Section 5.12. 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 Lease Agreement to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Section 5.13. Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Lease Agreement.

Section 5.14. No Arbitrage. The City shall not take, or permit or suffer to be taken by the Bank or otherwise, any action with respect to the proceeds of the Lease Agreement 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 Lease Agreement to be an "arbitrage bond" within the meaning of section 148 of the Code.

Section 5.15. Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest component of the Lease Payments from the gross income of the Bank to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date. If, for any reason, the interest component of the Lease Payments becomes includable in the gross income of the Bank for federal income tax purposes under the Code, the City, at the option of the Bank, shall pay to the Bank within thirty days of such determination, the amount which, with respect to Lease Payments previously paid and taking into account all penalties, fines, interest and additions to tax (including all federal, state and local taxes imposed on the interest component of the Lease Payments due through the date of such determination) that are imposed on the Bank as a result of the loss of the exclusion, will restore the Bank to the same after-tax yield on the transaction evidenced by this Lease Agreement (assuming tax at the actual marginal corporate rate) that it would have realized had the tax exemption not been lost. Furthermore, the City agrees that upon the occurrence of such an event, it shall pay additional amounts to the Bank on each succeeding Lease Payment Date as will maintain such after-tax yield to the Bank. Notwithstanding any such recalculation of the Lease Payments, the City shall at all times have the option to prepay all or part of the Lease Payments in accordance with Section 10.2 hereof.

Section 5.16. Section 265(b)(3) Designation. The City hereby designates the Lease as a "qualified tax-exempt obligation" within the meaning of the Code, and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income tax purposes, including the Lease, has been or will be issued by the City, during the calendar year 2013.

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

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

Section 6.2. Application of Net Proceeds.

(a) *From Insurance Award*. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Leased Property by fire or other casualty shall be applied by the City, when received, to the prompt restoration and repair of the Leased Property.

(b) *From Title Insurance and Eminent Domain Award*. The Net Proceeds of any title insurance or eminent domain award resulting from any event described in Section 6.1 shall be paid by the City to the Bank, as assignee of the Corporation under the Assignment Agreement, and applied to the prepayment of the Lease Payments in accordance with Section 10.3.

Section 6.3. Abatement of Lease Payments in the Event of Damage or Destruction. Lease Payments shall be abated during any period in which, by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for), there is substantial interference with the beneficial use and occupancy by the City of the Leased Property or any portion thereof (other than any portions of the Leased Property described in Section 5.2), but not any specific portion of the Leased Property, as shall be agreed upon by the City and the Corporation. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in Exhibit C, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Property not damaged or destroyed (giving due consideration to the factors identified in the last sentence of Section 4.4(d)), based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation (and as further described in the next paragraph), in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement shall continue in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under this Section 6.3 to the extent that (a) the proceeds of rental interruption insurance are available to pay Lease Payments which would otherwise be abated under this Section 6.3, it being hereby declared that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS; NO DISCRIMINATION

Section 7.1. Disclaimer of Warranties. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY. IN NO EVENT SHALL THE CORPORATION OR ITS ASSIGNS BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE ASSIGNMENT AGREEMENT, THIS LEASE AGREEMENT OR THE CUSTODIAN AGREEMENT FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR THE CITY'S USE OF THE LEASED PROPERTY.

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

Section 7.3. Release and Indemnification Covenants. The City hereby agrees to indemnify the Bank, the Corporation and their respective directors, officers, employees, agents, successors and assigns against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under this Lease, (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 Project, (f) the use, presence, storage, disposal or clean-up of any Hazardous Substances or toxic wastes on the Leased Property or (g) the failure to comply with any Applicable Environmental Laws. No indemnification is made under this Section or elsewhere in this Lease for willful misconduct or gross negligence under this Lease Agreement by the Corporation, the Bank or their respective officers, agents, employees, successors or assigns.

ARTICLE VIII

ASSIGNMENT, SUBLEASING AND AMENDMENT

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

Section 8.2. Assignment and Subleasing by the City. This Lease Agreement may not be assigned by the City. The City may sublease the Leased Property or any portion thereof subject to, and delivery to the Corporation of a certificate as to, all of the following conditions:

(a) The City shall have obtained the prior written consent of the Bank to such sublease;

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

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

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

(e) The City shall furnish the Corporation and the Bank with a written opinion of nationally-recognized bond counsel, which shall be an Independent Counsel, stating that such sublease does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Section 8.3. Amendment of this Lease Agreement.

(a) *Substitution of Property.*

(i) Generally.

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

(1) The City shall obtain the prior written consent of the Bank, which consent shall not be unreasonably withheld;

(2) The City shall file with the Corporation and the Bank an amended Exhibit A to the Site Lease and Assignment Agreement which adds thereto a description of such Substitute Property and deletes therefrom the description of the Former Property, and cause the Site Lease and Assignment Agreement to be recorded against the Substitute Property;

(3) The City shall file with the Corporation and the Bank an amended Exhibit B to this Lease Agreement which adds thereto a description of such Substitute Property and deletes therefrom the description of the Former Property, and cause this Lease Agreement to be recorded against the Substitute Property;

(4) The City delivers to the Bank and the Corporation evidence, based upon an independent M.A.I. appraisal, that the Substitute Property (or the portions to be substituted) has a value which is at least equal to the value of the Former Property;

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

(6) The City shall obtain an updated insurance policy or amendment to the title insurance policy required pursuant to Section 5.6 which adds thereto a description of the Substitute Property and deletes therefrom the description of the Former Property;

(7) The City shall certify that the Substitute Property is of the same or greater essentiality to the City as was the Former Property, and that the Substitute Property has a useful life extending at least to the final maturity date of the Lease Agreement; and

(8) The City shall furnish the Corporation and the Bank with a written opinion of nationally-recognized bond counsel, which shall be an Independent Counsel, stating that such substitution does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

(ii) Required Substitution of the Project for Original Leased Property.

The City agrees to substitute the Project for the Original Leased Property not later than 60 days following the Completion Date, and shall comply with the provisions of Section 8.3(a)(i) above in connection with such substitution, but shall not be required to satisfy subsections (4), (5),(7) or (8) thereof. In addition, the City agrees to reimburse the Bank for any reasonable costs associated with such substitution, including but not limited to costs incurred in connection with an inspection of the completed Project, and legal costs incurred in the review by Bank's legal counsel of legal and title insurance documents delivered in connection with said substitution.

(b) *Release of Property.* The City shall have, and is hereby granted, the option at any time and from time to time during the Term of this Lease Agreement to release any portion of the Leased Property, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

(i) The City shall obtain the prior written consent of the Bank, which consent shall not be unreasonably withheld;

(ii) The City shall file with the Corporation and the Bank an amended Exhibit B to the Site Lease which describes the Leased Property, as revised by such release;

(iii) The City shall file with the Corporation and the Bank an amended Exhibit B to this Lease Agreement which describes the Leased Property, as revised by such release;

(iv) The City delivers to the Bank and the Corporation evidence, based upon an independent M.A.I. appraisal, that the Leased Property, as revised by such release, is of equal or greater value than the then Outstanding principal component of the Lease Payments; and

(iv) The City shall obtain an amendment to the title insurance policy required pursuant to Section 5.6 which describes the Leased Property, as revised by such release.

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

(d) *Generally.* Neither the City nor the Corporation will alter, modify or cancel, or agree or consent to alter, modify or cancel this Lease Agreement, except in connection with a substitution, additional rental or release permitted by this Section 8.3.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

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

(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 under this Lease Agreement or under the Custodian Agreement, other than as referred to in clause (i) of this Section 9.1, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation and the Bank; *provided, however*, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation and the Bank shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

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

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

conditions herein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as herein provided, to wit:

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

(b) In an Event of Default hereunder, the Corporation at its option may terminate this Lease Agreement and re-lease all or any portion of the Leased Property. In the event of the termination of this Lease Agreement by the Corporation 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 Corporation in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate this Lease Agreement. The City covenants and agrees that no surrender of the Leased Property and/or of the remainder of the Term of this Lease Agreement or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

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

Section 9.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.5. Application of Proceeds. All net proceeds received from the re-lease or other disposition of the Leased Property under this Article IX, and all other amounts derived by the Corporation or the Bank as a result of an Event of Default hereunder, shall be transferred to the Bank promptly upon receipt thereof and after payment of all fees and expenses of the Bank, including indemnifications and attorneys fees, shall be held by the Bank in escrow to be applied to the Lease Payments in order of payment date.

Section 9.6. Bank to Exercise Rights. Such rights and remedies as are given to the Corporation under this Article IX have been assigned by the Corporation to the Bank under the Assignment Agreement, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Bank, as provided herein.

ARTICLE X

PREPAYMENT OF LEASE PAYMENTS

Section 10.1. Security Deposit. Notwithstanding any other provision of this Lease Agreement, the City may, on any date, secure the payment of all or a portion of the Lease Payments remaining due by an irrevocable deposit with the Bank or an escrow holder under an escrow deposit and trust agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) cash in an amount which is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Exhibit C, or (ii) Defeasance Obligations in such amount as will, in the written opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities or cash then on deposit and interest earnings thereon, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates (or date of prepayment, if applicable); or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by a City Representative designating the portion of the Lease Payments to which the deposit pertains, and either (i) cash in an amount which is sufficient to pay the portion of the Lease Payments designated in such City Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations in such amount as will, together with interest to be received thereon, if any, in the written opinion of an independent certified public accountant, be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid City Representative's certificate.

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

Section 10.2. Prepayment Option. The Corporation hereby grants an option to the City to prepay the principal component of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments as set forth in Exhibit C hereto on any date (except as set forth below), or in part on any Lease Payment Date (except as set forth below), in an amount equal to the principal amount of Lease Payments to be prepaid plus accrued interest to the date fixed for prepayment; provided, however, said option may be exercised only with respect to Lease Payments due after _____ and may be exercised on any date on or after

_____ with respect to the Lease Payments if prepaid in whole or on any Lease Payment Date on or after _____ with respect to the Lease Payments if prepaid in part.

Said option shall be exercised by the City by giving written notice to the Corporation and the Bank of the exercise of such option at least forty-five (45) days prior to said Lease Payment Date. Such option shall be exercised in the event of prepayment in full, by depositing with said notice cash in an amount, which will be sufficient to pay the aggregate unpaid component of the Lease Payments on said Lease Payment Date as set forth in Exhibit C hereto, and premium, if any, together with any Lease Payments then due but unpaid, or, in the event of prepayment in part, by depositing with said notice cash in an amount divisible by \$5,000 equal to the amount desired to be prepaid together with any Lease Payments then due but unpaid. In the event of prepayment in part, the partial prepayment shall be applied against the unpaid installments of the principal component of the Lease Payments pro rata. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Bank and the Corporation, and which shall represent an adjustment to the schedule set forth in Exhibit C attached hereto taking into account said partial prepayment.

Section 10.3. Mandatory Prepayment From Net Proceeds of Title Insurance or Eminent Domain. The City shall be obligated to prepay the Lease Payments, in whole or in part, from and to the extent of any Net Proceeds of a title insurance or condemnation award with respect to the Leased Property. The City and the Corporation hereby agree that such Net Proceeds shall be applied first to the payment of any delinquent Lease Payments, and thereafter shall be credited towards the City's obligations under this Section 10.3. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Bank and the Corporation, and which shall represent an adjustment to the schedule set forth in Exhibit C attached hereto taking into account said partial prepayment.

ARTICLE XI

MISCELLANEOUS

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

If to the Corporation: Public Property Financing Corporation of California
2945 Townsgate Road, Suite 200
Westlake Village, California 91361
Attention: Secretary/Treasurer

If to the City: City of Santa Rosa
90 Santa Rosa Avenue
Santa Rosa, California 95404
Attention: Chief Financial Officer

If to the Bank: BBVA Compass Bank
2536 N. Main Street
Walnut Creek, CA 94597
Attention: Kevin Herr
Fax: (925) 948-0927

With a copy to: Compass Bank
201 N. Hwy 183 (overnight delivery only)
Leander, TX 78646
P.O. Box 1190 (mail delivery only)
Leander, TX 78641
Attention: Nancy Allen

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

Section 11.2. Information to be Provided to Bank. The City shall provide to the Bank:

(a) Immediate notice by telephone, promptly confirmed in writing, of any event, action or failure to take any action which constitutes a Default or an Event of Default under this Lease Agreement, together with a detailed statement by a City Representative of the steps being taken by the City to cure the effect of such Default or Event of Default.

(b) Prompt written notice of any Material Litigation, or any investigation, inquiry or similar proceeding by any governmental authority with respect to any matter that relates to or could impact any of the Lease Payments.

(c) Promptly upon notice thereof, any termination or cancellation of any insurance policy which the City is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting the City property in excess of an aggregate of \$500,000.

(d) Promptly upon receipt by the City and in no event later than two hundred ten (210) days after the close of each Fiscal Year of the City (unless otherwise agreed in writing by the Bank), the City will furnish, or cause to be furnished, to the Bank detailed certified reports of audit, based on an examination sufficiently complete, prepared by an independent certified public accountant, covering the financial operations of the City for said Fiscal Year. In addition, the City shall deliver to the Bank, not later than 30 days after the close of each Fiscal Year of the City (unless otherwise agreed in writing by the Bank), a copy of the City's adopted budget for the then current Fiscal Year.

(e) With reasonable promptness, such other information respecting the City, the Leased Property, and the operations, affairs and financial condition of the City as the Bank may from time to time reasonably request.

The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the ministerial 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 such official duty of such officials to enable the City to carry out and perform the covenants and agreements on the part of the City contained in this Lease Agreement.

Section 11.3. Binding Effect. This Lease Agreement shall inure to the benefit of and shall be binding upon the Corporation, the City, the Bank and their respective successors and assigns.

Section 11.4. Severability. In the event any provision of this Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.5. Net-net-net Lease. This Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Section 11.6. Further Assurances and Corrective Instruments. The Corporation and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intentions of this Lease Agreement.

Section 11.7. Execution in Counterparts. This Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.8. Applicable Law. This Lease Agreement shall be governed by and construed in accordance with the laws of the State.

Section 11.9. Corporation and City Representatives. Whenever under the provisions of this Lease Agreement the approval of the Corporation or the City is required, or the Corporation or the City is required to take some action at the request of the other, such approval or such request shall be given for the Corporation by an Corporation Representative and for the City by a City Representative, and each party hereto shall be authorized to rely upon any such approval or request.

Section 11.10. 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 Corporation has caused this Lease Agreement to be executed in its name by its duly authorized officers; and the City has caused this Lease Agreement to be executed in its name by its duly authorized officers, as of the date first above written.

**PUBLIC PROPERTY FINANCING
CORPORATION OF CALIFORNIA, *as*
*Lessor***

By _____

Attest:

By _____
Secretary

CITY OF SANTA ROSA, *as Lessee*

By _____

Attest:

By _____
City Clerk

EXHIBIT A

DEFINITIONS

"Acquisition and Construction Costs" means all costs of payment of, or reimbursement for, acquisition, construction and installation of the Project, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums, permit fees, legal and consultant costs, administrative costs, and amounts due by the Corporation under the Lease Agreement or the Custodian Agreement, or due by the City under the Lease Agreement or the Custodian Agreement.

"Additional Payments" means the payments authorized under Section 4.7 of the Lease Agreement.

"Applicable Environmental Laws" means and shall include, but shall not be limited to, the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 USC Sections 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC Sections 6901 et seq.; the California Hazardous Waste Control Law ("HWCL"), California Health & Safety Code Sections 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), California Health & Safety Code Sections 25300 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), California Water Code Sections 1300 et seq.; the Air Resources Act, California Health & Safety Code Sections 3900 et seq.; the Safe Drinking Water & Toxic Enforcement Act, California Health & Safety Code Sections 25249.5 et seq.; and the regulations under each thereof; and any other local, state, and/or federal laws or regulations, whether currently in existence or hereafter enacted, that govern:

- (a) the existence, cleanup, and/or remedy of contamination on property;
- (b) the protection of the environment from spilled, deposited, or otherwise emplaced contamination;
- (c) the control of hazardous wastes; or
- (d) the use, generation, transport, treatment, removal, or recovery of Hazardous Substances, including building materials.

"Assignment Agreement" means the Assignment Agreement, dated as of November 1, 2013, by and between the Corporation and the Bank, together with any duly authorized and executed amendments thereto.

"Bank" means Compass Bank, an Alabama banking corporation, the assignee of the Corporation on the Closing Date.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office of the Bank is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

“Certificate of Completion” means the certificate of a City Representative certifying that the Project has been completed, and that all costs relating thereto have been paid, or that the City has otherwise determined that it no longer needs amounts in the Project Fund for payment of Acquisition and Construction Costs.

“City” means the City of Santa Rosa, a charter city and municipal corporation organized and existing under the Constitution and laws of the State.

“City Representative” means the Mayor, the City Manager, the Chief Financial Officer of the City, or the designee of any such official, or any other person authorized to act on behalf of the City under or with respect to the Custodian Agreement, the Lease Agreement and the Site Lease, and identified as such to the Bank in writing.

“Closing Date” means December __, 2013.

“Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or as it may be amended to apply to obligations issued on the Closing Date, together with applicable regulations promulgated under the Code.

“Completion Date” means the date of completion of the Project, as evidenced by the filing by the City with the Custodian of a Certificate of Completion.

“Corporation” means the Public Property Financing Corporation of California, a nonprofit public benefit corporation, organized and existing under the laws of the State.

“Corporation Representative” means the Chairman, the Secretary/Treasurer, or the designee of any such official, or any other person authorized to act on behalf of the Corporation under or with respect to the Custodian Agreement, the Lease Agreement and the Site Lease, and identified as such to the City and the Bank in writing.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution and delivery of the Site Lease, the Lease Agreement, the Custodian Agreement and the Assignment Agreement or the execution and delivery of the Lease Agreement, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, costs for statistical data, initial fees and charges of the Custodian (including the fees and expenses of its counsel), financing discounts, legal fees and charges, insurance fees and charges (including title insurance), financial and other professional consultant fees, and charges and fees in connection with the foregoing.

“Costs of Issuance Account” means the fund by that name established and held by the Custodian pursuant to the Custodian Agreement.

“County” means the County of Sonoma, a county duly organized and existing under the Constitution and laws of the State.

“Custodian Agreement” means the Custodian Agreement, dated as of November 1, 2013, by and among the City, the Bank, the Corporation and the Custodian, together with any duly authorized amendments thereto.

“Custodian” means U.S. Bank National Association, or any successor thereto, acting as Custodian pursuant to the Custodian Agreement.

“Defeasance Obligations” means (a) cash, or (b) non-callable Federal Securities.

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

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “fair market value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (a) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (b) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (c) the investment is a United States Treasury Security – State and Local Government Series, that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (d) the investment is the Local Agency Investment Fund of the State but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“Federal Securities” means 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) or obligations the payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Fiscal Year” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the City as its fiscal year.

“Governmental Authority” means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, district or other instrumentality of any governmental entity or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative

powers or functions of or pertaining to government, or any arbitrator, mediator or other Person with authority to bind a party at law.

"Hazardous Substance" means any substance that shall, at any time, be listed as "hazardous" or "toxic" in any Applicable Environmental Law or that has been or shall be determined at any time by any agency or court to be a hazardous or toxic substance regulated under Applicable Environmental Laws; and also means, without limitation, raw materials, building components, the products of any manufacturing, or other activities on the facilities, wastes, petroleum, and source, special nuclear, or by-product material as defined by the Atomic Energy Act of 1954, as amended (42 USC Sections 3011 et seq.).

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

"Interest Payment Date" means the first (1st) day of each ____ and _____, commencing _____, so long as the Lease Agreement is in effect.

"Lease Agreement" means that certain agreement for the lease of the Leased Property by the Corporation, as lessor, to the City, as lessee, dated as of November 1, 2013, together with any duly authorized and executed amendments thereto.

"Leased Property" means: (i) initially, the Original Leased Property; and (ii) any other property substituted therefor in accordance with Section 8.3.

"Lease Payment Date" means the _____ day of _____ and _____ in each year during the Term of the Lease Agreement, commencing _____.

"Lease Payments" means the payments required to be paid by the City pursuant to Section 4.4 of the Lease Agreement, including any prepayment thereof pursuant to Article X of the Lease Agreement, which payments consist of an interest component and a principal component, as set forth in Exhibit C to the Lease Agreement plus, in the case of prepayment, a prepayment premium, if any.

"Material Adverse Effect" means an event or occurrence which adversely affects in a material manner (a) the assets, liabilities, condition (financial or otherwise), business, facilities or operations of the City, (b) the ability of the City to carry out its business in the manner conducted as of the date of this Lease Agreement or to meet or perform its obligations under this Lease Agreement on a timely basis, (c) the validity or enforceability of this Lease Agreement, or (d) the exclusion of interest with respect to the Lease Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes.

"Material Litigation" means any action, suit, proceeding, inquiry or investigation against the City in any court or before any arbitrator of any kind or before or by any Governmental Authority, of which the Corporation has notice or knowledge and which, (i) if determined adversely to the City, may have a Material Adverse Effect, (ii) seek to restrain or enjoin any of

the transactions contemplated hereby or by the Lease Agreement, or (iii) may adversely affect (A) the exclusion of interest with respect to the Lease Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes or (B) the ability of the City to perform its obligations under this Lease Agreement.

"Net Proceeds," when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Leased Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Original Leased Property" means Fire Station #2, located at 65 Stony Point Road, Fire Station No. 3, located at 3311 Coffey Lane, and Fire Station #5, located at 3480 Parker Hill Road, more particularly described in Exhibit B hereto and made a part hereof.

"Outstanding," when used as of any particular time with respect to the Lease Payments, means all Lease Payments scheduled but unpaid, except Lease Payments for the payment or redemption of which funds or Defeasance Obligations in the necessary amount shall have theretofore been deposited with the Bank or an escrow holder (whether upon or prior to the maturity or prepayment date of such Lease Payments).

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

"Project" means the new fire station #5, to be located at the southeast corner of Newgate and Fountaingrove Parkway in the City, to be acquired, constructed, installed and equipped from amounts deposited into the Project Fund.

"Project Fund" means the fund by that name established and held by the Custodian pursuant to the Custodian Agreement.

"Rental Period" means each twelve-month period during the Term of the Lease Agreement or the Term of the Site Lease, as applicable, commencing on July 2 in any year and ending on July 1 in the next succeeding year; *provided, however,* that the first Rental Period shall commence on the Closing Date and shall end on _____.

"Site Lease" means that certain agreement for the lease of the Leased Property by the City, as lessor, to the Corporation, as lessee, dated as of November 1, 2013, together with any duly authorized and executed amendments thereto.

“State” means the State of California.

“Term of the Site Lease” means the time during which the Site Lease is in effect, as provided in Section 4.2 of the Site Lease.

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

EXHIBIT B

DESCRIPTION OF THE LEASED PROPERTY

The following parcel of land in Sonoma County, State of California, described as follows:

EXHIBIT C

SCHEDULE OF LEASE PAYMENTS

<u>Lease Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Lease Payment</u>
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