

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060



JOINT CITY COUNCIL - REDEVELOPMENT AGENCY AGENDA

Regular Meeting

April 27, 2010

- 1:30 P.M. CLOSED LITIGATION SESSION, COURTYARD CONFERENCE ROOM
- 2:55 P.M. JOINT CITY COUNCIL AND SANTA CRUZ PUBLIC FINANCING AUTHORITY BOARD OF DIRECTORS MEETING, COUNCIL CHAMBERS
- 3:00 P.M. CONSENT, GENERAL BUSINESS AND PUBLIC HEARINGS, COUNCIL CHAMBERS
- 7:00 P.M. GENERAL BUSINESS, PUBLIC HEARINGS AND MATTERS OF PUBLIC INTEREST, COUNCIL CHAMBERS

Written correspondence and telephone calls received after 5:00 p.m. on Monday preceding a Council meeting may not have time to reach Councilmembers, nor be read by them prior to consideration of an item. Please make any communication to Councilmembers regarding Council meeting items prior to 5:00 p.m. Monday.

Council meetings are cablecast on Comcast Channel 25.

Written material for every item listed in the open sessions is available for review at the Central Branch Library Reference Desk.

Time limits set by Council Policy are guidelines. Unless otherwise specified, procedures for all items, except those approved in one motion on the Consent Agenda, are:

- Oral staff report
- Public comment - 2 minutes each; maximum total time may be established by the Presiding Officer at the beginning of the item
- Council/Agency deliberation and action

Closed Litigation Session**1:30 PM**

At 1:30 p.m., the Presiding Officer will open the City Council and Redevelopment Agency Closed Litigation sessions in a public meeting in the Courtyard Conference Room, for the purpose of announcing the agenda; thereafter the meeting will be closed to the public.

A. Labor Negotiations (Government Code §54956.6)

Lisa Sullivan—Negotiator

- Employee Organizations—
1. Police Management
 2. Police Officers' Association
 3. SEIU—All Units
 4. Operating Engineers-Supervisors
 5. Operating Engineers-Managers
 6. FIRE IAFF
 7. Fire Management

B. Conference with Legal Counsel – Pending Litigation (Government Code §54956.9)

1. Build a Better La Bahia v. City of Santa Cruz, Santa Cruz Superior Court Case No. CV163910.

C. Conference with Legal Counsel – Existing Litigation (Government Code §54956.9(a))

1. Regents of the University of California v. City of Santa Cruz, et al., Santa Cruz County Superior Court Case No. CV 155136.
2. Regents of the University of California v. City of Santa Cruz, et al., Santa Cruz County Superior Court Case No. CV 155995.
3. City of Santa Cruz v. UCSC (LRDP/EIR), Santa Cruz County Superior Court Case No. CV 155571.
4. City of Santa Cruz v. UCSC (Biomedical Building – CEQA), Santa Cruz County Superior Court Case No. CV 156366.

D. Conference with Legal Counsel – Liability Claims (Government Code §54956.95)

1. Claimant: California State Automobile Association (Lombardi)
Claim Against: City of Santa Cruz

Closed Litigation Session (continued)

E. Public Employee Performance Evaluation (Government Code §54957).

City Council's performance evaluation of City Manager.

An oral report will be presented in the 3:00 p.m. Session (item 16).

**Joint City Council and Santa Cruz Public Financing Authority
Board of Directors Meeting
2:55 PM**

Call to Order

A. Proposed Issuance of 2010 Lease Revenue Refunding Bonds. (FN)

Resolution of the City Council of the City of Santa Cruz Authorizing the Issuance and Sale of Lease Revenue Refunding Bonds, and Authorizing Actions Related Thereto.

Resolution of the Board of Directors of the City of Santa Cruz Public Financing Authority Authorizing the Issuance and Sale of Lease Revenue Refunding Bonds, and Authorizing Actions Related Thereto.

Adjournment: The Public Financing Authority Board of Directors will adjourn from the regularly scheduled meeting of April 27, 2010 to the next regularly scheduled meeting on Tuesday, May 11, 2010, at the hour of 2:55 p.m.

Joint City Council/Redevelopment Agency

3:00 PM

- * Call to Order
- * Roll Call
- * Pledge of Allegiance
- * Presentation - Sexual Assault Response Team Information
- * Presentation - Amgen
- * Presentation - Mayor's Proclamation in Recognition of May as Museum Month
- * Presiding Officer's Announcements
- * Statements of Disqualification
- * Additions and Deletions
- * Joint City Council/Redevelopment Agency Oral Communications - 10 Minutes

Consent Agenda

1. Minutes of the April 13, 2010 Regular City Council Meeting. (CC)
Motion to approve as submitted.
2. Minutes of the April 13, 2010 Regular Redevelopment Agency Meeting. (CC)
Motion to approve as submitted.
3. 1520-K1 Pacific Avenue – Lease Agreement with Marilyn Strayer, dba Alfresco. (ED)

Resolution authorizing and directing the City Manager to execute a lease agreement and any amendments of a non-substantive nature, subject to the approval of the City Attorney, with Marilyn Strayer, dba Alfresco, for the premises located at 1520-K1 Pacific Avenue.

Consent Agenda (continued)

4. Fifth Amendment to the Amended and Restated Owner Participation Agreement By and Between the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz. (ED)

Resolution authorizing the City Manager to execute the Fifth Amendment to the Amended and Restated Owner Participation Agreement By and Between the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz, in a form to be approved by the City Attorney.

5. Liability Claims Filed Against City of Santa Cruz. (HR)

Motion to reject liability claim a) California State Automobile Association, based upon staff investigation.

6. Parks and Recreation Commission Bylaws Revision. (PK)

Motion to adopt the amended Bylaws setting forth said amendments to the structure of the Parks and Recreation Commission.

7. Proposition 84 Urban Greening Planning Grant Application. (PK/PL)

Resolution authorizing the City Manager to submit a grant application for the Urban Greening Planning Grant Program under the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) and approving the contract for the firm Design, Community and Environment (DC&E) to prepare an Urban Greening Plan per the grant requirements.

8. Beltz Wells Treatment Plant Driveway Project – Approval of Plans and Specifications and Authorization to Advertise for Bids and Award Contract. (WT)

Motion to approve the construction plans and specifications for the Beltz Wells Treatment Plant Driveway Project and authorize staff to advertise for bids. The City Manager is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27-563.

Consent Agenda (continued)

9. Water Supply Project – Post-Pilot Facility Site Modifications - Contract Change Order No. 3 and No. 4. (WT)

Motion to ratify Contract Change Order No. 3 (\$8,062) and No. 4 (\$12,270) with BCI Builders, Inc. (Scotts Valley) for Post-Pilot Facility Site Modifications.

10. H.R. 4812 – the Local Jobs for America Act – Resolution of Support. (CN)

Resolution supporting H.R. 4812, the Local Jobs for America Act and urging its immediate passage to protect community services and create more jobs.

11. AB 32: Global Warming Solutions Action of 2006 – Resolution Reaffirming Support. (CN)

Resolution reaffirming support of AB 32, the Global Warming Solutions Act of 2006, which establishes a timetable that aims to significantly reduce California's greenhouse gas emissions, and urging its full implementation.

End Consent Agenda**Public Hearing**

12. 2010-2015 Consolidated Plan and 2010 - 2011 Action Plan for the City's Housing and Community Development Program. (ED)

Resolution adopting the 2010-2015 Consolidated Plan and directing staff to submit the document to HUD.

Resolution adopting the 2010 - 2011 Annual Action Plan for the city's Housing and Community Development Program, certifying environmental review, and authorizing the City Manager to sign an application for federal funding assistance for the 2010 - 2011 program year.

Resolution authorizing the City Manager to execute program/project contracts, loan agreements and related loan documents with CDBG and HOME sub-recipients and contractors in connection with Consolidated Plan activities proposed in the 2010 - 2011 Annual Action Plan and any subsequent revisions to the Action Plan.

Resolution authorizing the continuance of existing funding for reprogrammable CDBG and HOME funds from the 2009 - 2010 Consolidated Plan Program Year to the 2010 - 2011 Program Year.

General Business

13. Formation of Santa Cruz County Tourism Marketing District. (CN)

Resolution granting consent to the County of Santa Cruz to form the Santa Cruz County Tourism Marketing District.

14. Rail Acquisition - Council Guidance to Santa Cruz County Regional Transportation Commission Representative, Councilmember Lane. (CN)

Motion providing Councilmember Lane guidance with respect to the May 6th Santa Cruz County Regional Transportation Committee vote on acquisition of the Santa Cruz Branch rail line.

15. Council Meeting Calendar

That the City Council review the meeting calendar attached to the agenda and revise as necessary.

16. City Attorney Oral Report on Closed Session. (See Page 2.)

17. Council Memberships in City Groups and Outside Agencies.

The Presiding Officer will provide Councilmembers with the opportunity to update Council and the public regarding City Groups and Outside Agencies.

The City Council and Redevelopment Agency will recess to the 7:00 P.M. Session.

Joint City Council/Redevelopment Agency

7:00 PM

- * Call to Order
- * Roll Call
- * Joint City Council and Redevelopment Agency Oral Communications - 20 Minutes

Public Hearing

18. Medical Marijuana Ordinance Amending Title 6. (PL)

Introduction of an Ordinance for Publication amending Title 6 of the Santa Cruz Municipal Code modifying standards for Personal Medical Marijuana Use.

Adjournment — The Redevelopment Agency will adjourn from the regularly scheduled meeting of April 27, 2010 to the next regularly scheduled meeting on May 11, 2010, for a closed litigation session at 1:30 p.m., in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m. and 7:00 p.m. in Council Chambers.

Adjournment — The City Council will adjourn from the regularly scheduled meeting of 2010, to the Special Meeting of Tuesday, May 4, 2010 for a River/Front and Lower Pacific Design Guidelines and Development Incentive Study and Walking Tour. The next regularly scheduled meeting will be on May 11, 2010, for a closed litigation session at 1:30 p.m., in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m. and 7:00 p.m. in Council Chambers.

Note: The Council Chambers will be closed ten minutes after the meeting is adjourned.

Advisory Body Appointments

No openings at this time.

Public Hearing: If, in the future, you wish to challenge in court any of the matters on this agenda for which a public hearing is to be conducted, you may be limited to raising only those issues which you (or someone else) raised orally at the public hearing or in written correspondence received by the City at or before the hearing.

Any person seeking to challenge a City Council decision made as a result of a proceeding in which, by law, a hearing is required to be given, evidence is required to be taken, and the discretion in the determination of facts is vested in the City Council, shall be required to commence that action either 60 days or 90 days following the date on which the decision becomes final as provided in Code of Civil Procedure Section 1094.6 Please refer to code of Civil Procedure 1094.6 to determine how to calculate when a decision becomes “final.” The 60-day rule applies to all public hearings conducted pursuant to the City’s Zoning Ordinance, Title 24, Santa Cruz Municipal Code. The 90-day rule applies to all other public hearings.

City Council Agenda Legislative History Addendum

No information was submitted.

City staff is responsible for providing the City Clerk with such documentation and information for the Legislative History Addendum. The information will be on file in the City Clerk’s Department.

The Addendum is a listing of information specific to City Council business, but which does not appear on a Council meeting agenda. Such entities would include, but not be limited to:

- Court decisions
- Coastal Commission Appeals of City Council actions
- Closed Session Agreements/Settlements, which are public record
- Association of Monterey Bay Area Governments
- Local Agency Formation Commission

ADDENDUM TO CITY COUNCIL AGENDA – APRIL 27, 2010
INFORMATION ITEMS PREVIOUSLY DISTRIBUTED TO CITY COUNCILMEMBERS
 (Copies available in the Central Branch Library at the Reference Desk)

City Manager’s Office	Monthly Camping Incident and Homeless Shelter Attendance Reports - 4/14/10 (CMFYI 141)
Finance Department	Quarterly Grant Report - 4/7/10 (FNFYI 136)
Public Works Department	City Council Capital Improvement Program Study Session – Commission Actions - 4/15/10 (PWFYI 0059)

ADDENDUM TO CITY COUNCIL AGENDA – APRIL 27, 2010

MAYOR'S PROCLAMATIONS

1. Proclaiming Saturday, April 10, 2010 as “Santa Cruz AIDS Walk 2010 Day” and urging all citizens to join in supporting and participating in events and efforts to care for those members of our community who are living with HIV/AIDS and to educate our community about what we all can do to help prevent the spread of HIV/AIDS.
2. Proclaiming Wednesday, April 21, 2010 as “Santa Cruz Community Farmer’s Market Day” and encouraging all citizens to join in congratulating the Downtown Santa Cruz Farmer’s Market upon its 20th Anniversary.
3. Proclaiming April 21, 2010 as “Ann Bennett Day” and urging all local residents and friends of Central Coast Theatre to join in celebrating her many contributions to local theatre and wishing her well as she transitions to a new phase of her theatrical life.
4. Proclaiming the month of May 2010 as “Museum Month” and urging all citizens to join in honoring the City’s four museums and the many volunteers and contributors who have made and continue to create inspiring and educational experiences for all.



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Finance

SUBJECT: Proposed Issuance of 2010 Lease Revenue Refunding Bonds. (FN)

RECOMMENDATION: Resolution of the City Council of the City of Santa Cruz Authorizing the Issuance and Sale of Lease Revenue Refunding Bonds, and Authorizing Actions Related Thereto.

Resolution of the Board of Directors of the City of Santa Cruz Public Financing Authority Authorizing the Issuance and Sale of Lease Revenue Refunding Bonds, and Authorizing Actions Related Thereto.

BACKGROUND: In November 1998, the City issued \$10.035 million in certificates of participation (COP's) to: 1) fund construction of the 400 space parking garage at Front Street and Soquel Avenue; and 2) to refinance other certificates of participation originally issued in 1990. That portion of the 1998 COP's represented by the 1990 COP refunding has been paid in full. The outstanding par value of the remaining 1998 COP's for the parking garage is \$5.510 million. The average interest rate on the outstanding 1998 COP's is 4.95%. The maturity of the 1998 COPs extends through 2028.

The City's financial advisor, Northcross Hill & Ach, Inc., has informed the City that, in the current interest rate environment, it is possible for the City to refinance the 1998 COP's and to achieve interest rate savings and thereby realize financial savings for the City. Accordingly, staff proposes that the City of Santa Cruz Public Financing Authority (the "Authority") issue its "2010 Refunding Lease Revenue Bonds" in a principal amount not to exceed \$5,750,000 to refund all of the outstanding 1998 COP's. If the Authority were to issue the 2010 Refunding Lease Revenue Bonds at an all-in true interest cost of 4%, the City would be able to achieve net present value savings of approximately \$260,000 (savings equal to 5% of the COP's refunded). The actual par value of the 2010 Refunding Lease Revenue Bonds is currently estimated at \$5.455 million, slightly less than the outstanding par value of the 1998 COP's.

DISCUSSION: Proposed Action The Board of Directors of the Authority and the City Council are asked to approve issuance of the 2010 Refunding Lease Revenue Bonds and all related documents. The 2010 Refunding Lease Revenue Bonds would be sold by competitive bidding among a limited number of underwriting firms to be designated by the Finance Director upon the advice of the financial advisor. The authorizing resolution for the 2010 Refunding Lease Revenue Bonds requires minimum net present value savings of 5% of the outstanding original issue par amount. Unless that savings level is achieved, the refunding will not take place. The

original payment dates and final principal maturity of May 1, 2028, of the 1998 COP's will be also used for the 2010 Refunding Lease Revenue Bonds.

Security for the 2010 Refunding Bonds. The 2010 Refunding Bonds will be secured by payments made from the General Fund of the City through a lease arrangement between the City and the Authority. The City's Parking Fund currently reimburses the General Fund for debt service on the 1998 COP's, and will also do so for the 2010 Refunding Bonds. Parking revenues from the Front Street garage currently cover 100% of debt service on the 1998 COP's.

Potential Refunding of the 2001 Certificates of Participation. In April, 2001, the City issued \$4.415 million in certificates of participation ("2001 COP's") to fund improvements to the Civic Center. The \$3.63 million in currently outstanding 2001 COP's could also now be refinanced, but is not likely to achieve the minimum 5% net present value savings required by the proposed authorizing resolution. The resolutions give staff the authority to include this potential refunding in the 2010 Refunding Lease Revenue Bonds if that refunding were to also achieve 5% net present value savings.

Santa Cruz Public Financing Authority. The issuance of COP's or lease revenue bonds requires the use of an entity to serve as lessor under the financing lease. When the 1998 COP's were issued, the City used a non-profit corporation called the City of Santa Cruz Public Improvement Financing Corporation as lessor. However, it is less cumbersome to use the existing Santa Cruz Public Financing Authority, a joint powers authority, now to serve as issuer of the Bonds on behalf of the City and to act as lessor for this potential transaction. Accordingly, the Board of Directors of the Authority would adopt its resolution authorizing the issuance of the bonds and approving related financing documents, and the City Council would adopt its resolution approving the leases and other financing documents to which it is a party.

Preliminary Official Statement. The attached Preliminary Official Statement has been prepared by the City's bond counsel, Jones Hall, A Professional Law Corporation, and reviewed and approved for transmittal to the City Council by City staff. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2010 Refunding Lease Revenue Bonds. Material information is information for which there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2010 Refunding Lease Revenue Bonds. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2010 Refunding Lease Revenue Bonds, it must adopt the resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the City's compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC stated that, if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2010 Refunding Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts

of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

FISCAL IMPACT: The proposed issuance of the 2010 Refunding Lease Revenue Bonds will have a positive fiscal impact on the City because the minimum savings required for the refunding would result in an annual reduction in the annual debt service expense legally borne by the General Fund of at least \$40,000 per year through FY 2028.

Prepared by:
Jack Dilles
Finance Director

Submitted by:
Jack Dilles
Finance Director

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS:

City Resolution
Public Financing Authority Resolution
Preliminary Official Statement
Lease Agreement
Site Lease
Indenture of Trust
Escrow Agreement
Assignment Agreement
Bond Purchase Agreement

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
APPROVING DOCUMENTS AND ACTIONS RELATING TO THE REFINANCING
OF 1998 CERTIFICATES OF PARTICIPATION

WHEREAS, the City of Santa Cruz (the "City") has previously entered into a Trust Agreement dated as of November 1, 1998, with the Santa Cruz Public Improvement Financing Corporation and BNY Western Trust Company, as trustee, under which \$10,035,000 aggregate principal amount of 1998 Parking and Refunding Certificates of Participation (the "1998 Certificates") have been executed and delivered for the purpose of financing and refinancing various municipal facilities of the City; and

WHEREAS, in order to take advantage of prevailing bond market conditions, the City Council wishes to authorize the refinancing of the 1998 Certificates; and

WHEREAS, to that end, the City has proposed to lease the real property which was previously leased in connection with the 1998 Certificates, consisting generally of public golf course and public parking facilities (the "Leased Property") to the City of Santa Cruz Public Financing Authority (the "Authority") in consideration of the payment by the Authority of an upfront rental payment which is sufficient to provide funds to refinance the 1998 Certificates; and

WHEREAS, in order to raise funds for such purpose, the Authority proposes to issue and sell its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of not to exceed \$5,750,000 (the "Refunding Bonds") under 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 secure the payments of principal of and interest on the Refunding Bonds, the Authority proposes to lease the Leased Property back to the City under a Lease Agreement (the "Lease Agreement"), under which the City is obligated to pay semiannual lease payments as rental for the Leased Property, and the Authority will assign substantially all of its rights under the Lease Agreement to Union Bank of California, N.A., as trustee for the Refunding Bonds; and

WHEREAS, the City Council wishes at this time to approve all proceedings to which it is a party relating to the issuance and sale of the Refunding Bonds and the refinancing of the 1998 Certificates;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz as follows:

SECTION 1. Issuance of Refunding Bonds. The City Council hereby approves the issuance of the Refunding Bonds by the Authority under the Bond Law in the maximum principal amount of \$5,750,000, for the purpose of providing funds to refinance the 1998 Certificates.

RESOLUTION NO. NS-

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 Refunding Bonds and the refinancing of the 1998 Certificates, in substantially the respective forms on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager or the Finance Director (each, an “Authorized Officer”), whose execution thereof shall be conclusive evidence of the approval of any such changes or additions. An Authorized Officer is hereby authorized and directed for and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest, the final form of each such agreement, as follows:

- Site Lease, between the City as lessor and the Authority as lessee, under which the City leases the Leased Property to the Authority in consideration of the payment of an amount which will be applied by the City to refinance the 1998 Certificates.
- Lease Agreement, between the Authority as lessor and the City as lessee, under which the Authority leases the Leased Property back to the City and the City agrees to pay semiannual lease payments which are sufficient to provide revenues with which to pay principal of and interest on the Refunding Bonds when due; and
- Escrow Deposit and Trust Agreement, between the City and the trustee for the 1998 Certificates, providing the deposit, investment and application of funds to refinance the 1998 Certificates.

SECTION 3. Negotiated Sale of Refunding Bonds. The City Council hereby approves the negotiated sale of the Refunding Bonds by the Authority to an underwriter or investment banking firm (the “Underwriter”) to be designated by the Finance Director based upon consultation with Northcross, Hill & Ach, Inc. as financial advisor to the City and the Authority (the “Financial Advisor”). The Refunding Bonds shall be sold pursuant to the terms and provisions of a Bond Purchase Agreement among the Authority, the City and the Underwriter in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The Refunding Bonds shall be sold at such price and shall bear interest at such rates as shall produce a minimum net present value savings to the City of at least 5% of the principal amount of the outstanding 1998 Certificates, as such savings shall be verified and conclusively determined by the Financial Advisor (the “Minimum Savings Requirement”).

SECTION 4. Official Statement. The City Council hereby approves the preliminary Official Statement describing the Refunding Bonds in substantially the form on file with the City Clerk. The City Manager is hereby authorized and directed to approve any changes in or additions to said preliminary Official Statement and to execute an appropriate certificate stating the City Manager’s determination that the preliminary Official Statement (together with any changes therein or additions thereto) has been deemed nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934. Distribution of the preliminary Official Statement by the Underwriter is hereby approved. The City Manager is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by the City Manager shall be conclusive evidence of approval of any such

RESOLUTION NO. NS-

changes and additions. The City Council hereby authorizes the distribution of the final Official Statement by the Underwriter. The final Official Statement shall be executed on behalf of the City by the City Manager.

SECTION 5. Authorization to Refund 2001 Certificates. The City has previously caused to be executed and delivered 2001 Certificates of Participation (Civic Center Improvement Project) in the aggregate principal amount of \$4,415,000 (the "2001 Certificates"). In the event the Finance Director determines that the Minimum Savings Requirement set forth in Section 3 can be met for the 2001 Certificates by applying a portion of the Refunding Bonds to refund the 2001 Certificates, the authorized principal amount of the Refunding Bonds shall be increased by not to exceed \$4,000,000 as may be required to refinance the 2001 Certificates, and appropriate revisions shall be made to the documents approved under this Resolution to reflect the refunding of the 2001 Certificates. In such event, the Leased Property shall include any or all of the properties which have previously been leased in connection with the 1998 Certificates and the 2001 Certificates.

SECTION 6. Official Actions. The Mayor, the City Manager, the Finance Director, the City Clerk and all other officers of the City are each authorized and directed on behalf of the City to make any and all leases, assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance or termination, warrants and other documents, which they or any of them deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

SECTION 7. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED by the City Council of the City of Santa Cruz at a regular meeting held this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk

RESOLUTION NO. ____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF 2010 REFUNDING LEASE REVENUE BONDS TO REFINANCE OUTSTANDING 1998 CERTIFICATES OF PARTICIPATION, AND APPROVING RELATED DOCUMENTS AND OFFICIAL ACTIONS

WHEREAS, the City of Santa Cruz (the "City") has previously entered into a Trust Agreement dated as of November 1, 1998, with the Santa Cruz Public Improvement Financing Corporation and BNY Western Trust Company, as trustee, under which \$10,035,000 aggregate principal amount of 1998 Parking and Refunding Certificates of Participation (the "1998 Certificates") have been executed and delivered for the purpose of financing and refinancing various municipal facilities of the City; and

WHEREAS, in order to take advantage of prevailing bond market conditions, the City Council wishes to authorize the refinancing of the 1998 Certificates; and

WHEREAS, to that end, the City has proposed to lease the real property which was previously leased in connection with the 1998 Certificates, consisting generally of public golf course and public parking facilities (the "Leased Property") to the City of Santa Cruz Public Financing Authority (the "Authority") in consideration of the payment by the Authority of an upfront rental payment which is sufficient to provide funds to refinance the 1998 Certificates; and

WHEREAS, in order to raise funds for such purpose, the Authority proposes to issue and sell its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of not to exceed \$5,750,000 (the "Refunding Bonds") under 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 secure the payments of principal of and interest on the Refunding Bonds, the Authority proposes to lease the Leased Property back to the City under a Lease Agreement (the "Lease Agreement"), under which the City is obligated to pay semiannual lease payments as rental for the Leased Property, and the Authority will assign substantially all of its rights under the Lease Agreement to Union Bank of California, N.A., as trustee for the Refunding Bonds; and

WHEREAS, the Board of Directors wishes at this time to approve all proceedings to which it is a party relating to the issuance and sale of the Refunding Bonds and assist the City in the refinancing of the 1998 Certificates;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the City of Santa Cruz Public Financing Authority as follows:

SECTION 1. Issuance of Refunding Bonds. The Board of Directors hereby authorizes the issuance of the Refunding Bonds under the Bond Law in the maximum principal amount of \$5,750,000, for the purpose of providing funds to refinance the 1998

Certificates. The Refunding Bonds shall be issued under the Bond Law and the Indenture of Trust which is approved below.

SECTION 2. Approval of Related Financing Agreements. The Board of Directors hereby approves each of the following agreements required for the issuance and sale of the Refunding Bonds and the refinancing of the 1998 Certificates, in substantially the respective forms on file with the Secretary together with any changes therein or additions thereto deemed advisable by the Executive Director or the Chief Financial Officer (each, an "Authorized Officer"), whose execution thereof shall be conclusive evidence of the approval of any such changes or additions. An Authorized Officer is hereby authorized and directed for and on behalf of the Authority to execute, and the Secretary is hereby authorized and directed to attest, the final form of each such agreement, as follows:

- Indenture of Trust, between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), setting forth the terms and provisions relating to the Refunding Bonds.
- Site Lease, between the City as lessor and the Authority as lessee, under which the City leases the Leased Property to the Authority in consideration of the payment of an amount which will be applied by the City to refinance the 1998 Certificates.
- Lease Agreement, between the Authority as lessor and the City as lessee, under which the Authority leases the Leased Property back to the City and the City agrees to pay semiannual lease payments which are sufficient to provide revenues with which to pay principal of and interest on the Refunding Bonds when due; and
- Assignment Agreement, between the Authority and the Trustee, whereby the Authority assigns certain of its rights under the Lease Agreement to the Trustee for the benefit of the Refunding Bond owners.

SECTION 3. Negotiated Sale of Refunding Bonds. The Board of Directors hereby authorizes and directs the negotiated sale of the Refunding Bonds to an underwriter or investment banking firm (the "Underwriter") to be designated by the Finance Director based upon consultation with Northcross, Hill & Ach, Inc. as financial advisor to the City and the Authority (the "Financial Advisor"). The Refunding Bonds shall be sold at such price and shall bear interest at such rates as shall produce a minimum net present value savings to the City of at least 5% of the principal amount of the outstanding 1998 Certificates, as such savings shall be verified and conclusively determined by the Financial Advisor (the "Minimum Savings Requirement").

SECTION 4. Official Statement. The Board of Directors hereby approves the preliminary Official Statement describing the Refunding Bonds in substantially the form on file with the Secretary. The Executive Director is hereby authorized and directed to approve any changes in or additions to said preliminary Official Statement and to execute an appropriate certificate stating the Executive Director's determination that the preliminary Official Statement (together with any changes therein or additions thereto) has been deemed nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934. Distribution of the preliminary Official Statement by the Underwriter is hereby approved. The Executive Director is hereby authorized and directed to approve

any changes in or additions to a final form of said Official Statement, and the execution thereof by the Executive Director shall be conclusive evidence of approval of any such changes and additions. The Board of Directors hereby authorizes the distribution of the final Official Statement by the Underwriter. The final Official Statement shall be executed on behalf of the Authority by the Executive Director.

SECTION 5. Authorization to Refund 2001 Certificates. The City has previously caused to be executed and delivered 2001 Certificates of Participation (Civic Center Improvement Project) in the aggregate principal amount of \$4,415,000 (the "2001 Certificates"). In the event the Finance Director of the City determines that the Minimum Savings Requirement set forth in Section 3 can be met for the 2001 Certificates by applying a portion of the Refunding Bonds to refund the 2001 Certificates, the authorized principal amount of the Refunding Bonds shall be increased by not to exceed \$4,000,000 as may be required to refinance the 2001 Certificates, and appropriate revisions shall be made to the documents approved under this Resolution to reflect the refunding of the 2001 Certificates. In such event, the Leased Property shall include any or all of the properties which have previously been leased in connection with the 1998 Certificates and the 2001 Certificates.

SECTION 6. Official Actions. The Mayor, the Chairman, the Executive Director, the Chief Financial Officer, the Secretary, the Authority Attorney and all other officers of the Authority are each authorized and directed on behalf of the Authority to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance and other documents, which they or any of them deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

SECTION 7. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED by the Board of Directors of the City of Santa Cruz Public Financing Authority at a regular meeting held this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

Chairman

Attest:

Secretary

NEW ISSUE - FULL BOOK-ENTRY

RATINGS: Standard & Poor's: "___"
Fitch: "___"
See "Ratings".

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 required to be taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$ _____ *
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds

Dated: Date of Delivery

Due: May 1, as shown on inside cover

Authority for Issuance. The 2010 Refunding Lease Revenue Bonds (the "Bonds") are being issued by the City of Santa Cruz Public Financing Authority (the "Authority") under a resolution adopted by the Board of Directors of the Authority on April 27, 2010, and an Indenture of Trust dated as of May, 2010 (the "Indenture") by and between the Authority and Union Bank, N.A., as trustee for the Bonds (the "Trustee"). See "THE BONDS - Authority for Issuance."

Use of Proceeds. The proceeds of the Bonds will be used to (i) refinance an outstanding lease obligation of the City of Santa Cruz (the "City") and related outstanding 1998 Parking and Refunding Certificates of Participation, (ii) provide for a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. In addition, if the City determines it would be economically advantageous to the City, the City may elect at the time the Bonds are priced to refinance an additional lease obligation and related outstanding 2001 Certificates of Participation (Civic Center Improvement Project). See "REFINANCING PLAN."

Security for the Bonds. Under the Indenture, the Bonds will be payable solely from and secured by Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of lease payments ("Lease Payments") to be made by the City pursuant to a Lease Agreement, dated as of May 1, 2010 (the "Lease"), by and between the Authority and the City, for the leasing of certain real property. Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances as described in this Official Statement). See "SECURITY FOR THE BONDS."

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on May 1 and November 1 of each year, commencing on November 1, 2010, and will be issued in fully-registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS - General Provisions."

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

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

MATURITY SCHEDULE
(see inside cover)

The following firm, serving as "Financial Advisor", has assisted in the structuring of this issue:



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

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about _____, 2010.

[UNDERWRITER]

The date of this Official Statement is: ____, 2010.

* Preliminary, subject to change.

MATURITY SCHEDULE
(Base CUSIP†: _____)

<u>Maturity</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
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† Copyright 2010, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City, the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

**CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
CITY OF SANTA CRUZ**

AUTHORITY BOARD/CITY COUNCIL

Mike Rotkin, *Chairperson/Mayor*
Ryan Coonerty, *Vice Chairperson/Mayor Pro Tem*
Katherine Beiers, *Director/Councilmember*
Don Lane, *Director/Councilmember*
Tony Madrigal, *Director/Councilmember*
Cynthia Mathews, *Director/Councilmember*
Lynn Robinson, *Director/Councilmember*

AUTHORITY/CITY OFFICIALS

Richard C. Wilson, *Director/City Manager*
Jack Dilles, *Director of Finance*
Lorrie Brewer, *Secretary/City Clerk*
John G. Barisone, *City Attorney*

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Northcross, Hill & Ach, Inc.
San Rafael, California

TRUSTEE

Union Bank, N.A.
San Francisco, California

[INSERT REGIONAL MAP]

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date of this Official Statement.

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

Limited Scope of Information. The City has obtained certain information set forth in this Official Statement from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this Official Statement. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings given in the Indenture.

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

Stabilization of Prices. In connection with this offering, the Underwriter may 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 and the public offering prices may be changed from time to time by the Underwriter.

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

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OFFICIAL STATEMENT

\$ _____ *

**CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 REFUNDING LEASE REVENUE BONDS**

INTRODUCTION

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

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A - Summary of Principal Legal Documents."

Authority for Issuance. The City of Santa Cruz Public Financing Authority (the "**Authority**") is issuing its 2010 Refunding Lease Revenue Bonds (the "**Bonds**") under the following legal authority:

- (a) Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 (the "**Bond Law**"),
- (b) a resolution adopted by the Board of Directors (the "**Board**") of the Authority on April 27, 2010 (the "**Authority Resolution**"), and a resolution adopted by the City Council (the "**City Council**") of the City of Santa Cruz (the "**City**") on April 27, 2010 (the "**City Resolution**"), and
- (c) an Indenture of Trust (the "**Indenture**"), dated as of May 1, 2010, by and between the Authority and Union Bank, N.A., as trustee (the "**Trustee**").

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York ("**DTC**"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS - Book-Entry Only System" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Purpose of the Bonds. The Bonds are being issued to provide funds to (i) refinance an outstanding lease obligation of the City and related outstanding 1998 Parking and Refunding Certificates of Participation (the "**1998 Certificates**"), (ii) fund a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. In addition, if the City determines it would be economically advantageous to the City, the City may elect at the time the Bonds are priced to

* Preliminary, subject to change.

refinance an additional lease obligation and related outstanding 2001 Certificates of Participation (Civic Center Improvement Project) (the “**2001 Certificates**”).

Security for the Bonds and Pledge of Revenues. The Bonds will be payable solely from and secured by Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments to be made by the City pursuant to a Lease Agreement, dated as of May 1, 2010, between the City and the Authority (the “**Lease**”). See “THE LEASED PROPERTY.” Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances described in the Lease). See “SECURITY FOR THE BONDS.”

Lease Payments payable by the City under the Lease are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. However, under certain circumstances, Lease Payments may be abated under the Lease without constituting a default. See “SECURITY FOR THE BONDS – Reserve Account” and “ – Abatement” and “BONDOWNERS’ RISKS – Abatement.”

Pursuant to an Assignment Agreement, dated as of May 1, 2010 (the “**Assignment Agreement**”), by and between the Authority and the Trustee, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of the Authority’s rights under the Lease, including its rights to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds.

No Additional Parity Obligations. Under the Indenture, 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.

Reserve Account. A Reserve Account will be established for the Bonds in an amount equal to the “**Reserve Requirement**” (described in this Official Statement). See “REFINANCING PLAN - Estimated Sources and Uses of Funds” and “SECURITY FOR THE BONDS - Reserve Account.”

Redemption. The Bonds are subject to redemption prior to their stated maturity dates. See “THE BONDS - Redemption.”

Abatement. The Lease provides that the obligation of the City to pay Lease Payments will be abated by reason of (i) any damage or destruction such that there is substantial interference with the use and occupancy of all or any portion of the Leased Property, or (ii) a temporary taking of the Leased Property or a permanent taking of a portion of the Leased Property.

However, to the extent proceeds of rental interruption insurance are available or there are moneys in the Reserve Account with respect to the Bonds (as described below), Lease Payments (or a portion thereof) may be made from those sources during periods of abatement. See “SECURITY FOR THE BONDS - Abatement” and “BOND OWNERS’ RISKS - Abatement.”

Risks of Investment. The Bonds are repayable primarily from Lease payments and other amounts payable by the City under the Lease. For a discussion of some of the risks associated with the purchase of the Bonds, see “BOND OWNERS’ RISKS.”

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

REFINANCING PLAN

The Bonds are being issued to provide funds to (i) refinance an outstanding lease obligation of the City, pursuant to a Lease Agreement dated as of November 1, 1998 (the “**1998 Lease Agreement**”) and to concurrently refinance the outstanding 1998 Certificates, (ii) fund a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds.

Refunding of the 1998 Certificates

The 1998 Certificates. The 1998 Certificates were executed and delivered to provide funds to (i) refund the City of Santa Cruz Certificates of Participation dated May 1, 1990 and (ii) finance the acquisition, construction and improvement of certain Parking Facilities of the City. The 1998 Certificates are currently outstanding in the amount of \$5,510,000.

The City and the Santa Cruz Public Improvement Financing Corporation (the “**Corporation**”) previously entered into the 1998 Lease Agreement, under which the City is obligated to pay semiannual lease payments as rental for certain property (the “**1998 Lease Payments**”). The 1998 Lease Payments were assigned to The Bank of New York Mellon Trust Company, N.A., as trustee for the 1998 Certificates (the “**1998 Trustee**”). The 1998 Certificates were executed and delivered under a Trust Agreement dated as of November 1, 1998 (the “**1998 Trust Agreement**”), among the City, the Corporation and the 1998 Trustee.

Under the 1998 Lease Agreement, the City has the right to prepay the 1998 Lease Payments on any date, and has the right to secure the payment and prepayment of the 1998 Lease Payments with an irrevocable deposit of funds which has the effect of discharging the City’s obligations under the 1998 Lease Agreement. The 1998 Certificates are subject to prepayment on any date, without premium.

Proposed Refinancing. On the date of issuance of the Bonds (the “**Closing Date**”), the City will cause to be transferred to the 1998 Trustee, as escrow agent (the “**Escrow Agent**”), for deposit into an escrow fund (the “**Escrow Fund**”), an amount sufficient to prepay the 1998 Lease Payments and the corresponding 1998 Certificates on June __, 2010. The Escrow Agent will invest a portion of the amounts deposited in the Escrow Fund in federal securities. All amounts held in the Escrow Fund will be applied on June __, 2010 to prepay the 1998 Lease Payments.

Following the payment and prepayment of the 1998 Lease Payments in full on June __, 2010, the Escrow Agent will transfer any amounts remaining on deposit in the Escrow Fund to the Trustee to be applied to pay interest next coming due and payable on the Bonds.

The amounts held and invested by the Escrow Agent in the Escrow Fund are pledged solely to the payment of the 1998 Lease Payments and the 1998 Certificates. Neither the funds deposited in the Escrow Fund nor the interest on the invested funds will be available for the payment of debt service on the Bonds.

Refinancing of the 2001 Certificates

If the City determines it would be economically advantageous to the City, the City may elect at the time the Bonds are priced to refinance an additional lease obligation and related outstanding 2001 Certificates. The 2001 Certificates are subject to prepayment on any business day between April 1, 2010 and March 31, 2011 at a prepayment price equal to the principal amount to be prepaid, plus accrued interest to the prepayment price, plus a premium of 1%. The 2001 Certificates are currently outstanding in the principal amount of \$3,630,000.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Bonds are as follows:

Sources:

Principal Amount
 Plus Original Issue Premium/
 Less Original Issue Discount
 Less Underwriter's Discount
Total Sources _____

Uses:

Escrow Fund
 Reserve Account⁽¹⁾
 Costs of Issuance⁽²⁾
Total Uses _____

- (2) Deposit equal to the initial Reserve Requirement with respect to the Bonds. See "SECURITY FOR THE BONDS—Reserve Account".
- (3) Represents funds to be used to pay Costs of Issuance, which include legal fees, printing costs, rating agency fees and other miscellaneous expenses.

THE LEASED PROPERTY

Lease Payments will be made by the City under the Lease for the use and occupancy of the Leased Property, which, as described in greater detail below, consists of a public parking structure.

The parking structure is a three and one-half level structure with one level at grade and two and one-half elevated levels, covering 135,000 square feet with a footprint approximately 125 feet wide by approximately 280 feet long. The parking structure is located at the northwest corner of Front Street and Soquel Avenue in the City, and has 395 parking spaces. The parking structure includes 4,300 square feet of corner and street frontage retail space (approximately 4,000 square feet of space is leased by the City to tenants) and public restrooms, a glass-backed elevator and central cashiering. The structural system uses ductile frames on the north and south elevations and shear walls in the east and west elevations for seismic protection. The structure was designed to meet the 1994 Uniform Building Code requirements with 1995 California amendments which comprised the California Building Code (Title 24 of the California

Code of Regulations). The requirements include provisions for construction in Seismic Zone 4 which included all of coastal California and the greater San Francisco Bay Area. The City does not maintain earthquake insurance on the parking structure. For insurance purposes, the replacement value of the parking structure is currently carried at \$9,385,325. The parking structure is located in a FEMA A99 flood zone and the City currently maintains flood insurance on the parking structure.

In the event the City decides to refinance the 2001 Certificates, the City will also lease the Civic Center, which is the combined sites of the City Hall and annex buildings and facilities, including related parking, landscaping, utilities and other facilities. The Civic Center is more specifically described below.

The Civic Center includes (i) the entire city block bounded by Center, Church, Chestnut and Locust Streets with the exception of a privately-owned house on a 5,320 square foot parcel fronting on Locust Street (approximately 106,200 square feet, or 2.4 acres) and (ii) a 10,400 square foot parcel directly across Church Street from the Civic Center, on which the Adams Building is located.

The following structures are located on the Civic Center site:

- (1) The historic City Hall building. This 13,890-square foot building was built in 1938 and renovated in 2001. The City Hall building was built in compliance with the 1998 California Building Code.
- (2) The two-story City Hall annex building. This 15,292-square foot building was built in 1967 and renovated in 2002. The City Hall annex building was built in compliance with the 1964 Building Code and renovated in compliance with the 1998 California Building Code.
- (3) A wooden-frame structure, which is a converted house and which houses the City's Economic Development and Redevelopment Department. This 1,700-square foot wooden-frame structure was built in 1941 and renovated in 2001. The wooden-frame structure was built in compliance with the 1998 California Building Code.
- (4) The Adams Building. The 4,550-square foot Adams Building was built in 1953 and renovated in 2001. The Adams Building was built in compliance with the 1952 and 1998 California Building Codes.
- (5) Parking facilities. The entire City Hall complex includes a number of paved parking lots with a total of 98 parking spaces.

For insurance purposes, the replacement value of the structures in the Civic Center is currently carried by the City at \$9,625,214.

The Civic Center is located in Seismic Zone 4. The City does not maintain earthquake insurance on the facilities comprising the Civic Center. The Civic Center is located in a FEMA A99 flood zone. The City currently maintains flood insurance on the facilities comprising the Civic Center.

Modifications of Leased Property

Under the Lease, subject to the approval of the Authority, the City will have the right during the term of the Lease to make additions, modifications and improvements to the Leased Property or any portion thereof. 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, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

Substitution

Under the Lease, The City has the option at any time and from time to time, to substitute other real property (the “**Substitute Property**”) for the Leased Property or any portion thereof (the “**Former Property**”), upon satisfaction of all of the requirements set forth in the Lease, which includes (among others) the following:

- No Event of Default has occurred and is continuing.
- The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease in the Substitute Property, subject only to Permitted Encumbrances (as defined in the Lease), in an amount at least equal to the estimated value thereof.
- The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.
- The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made herein.
- 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, 2038.
- The City has mailed written notice of the substitution to each rating agency that then maintains a rating on the Bonds.

See “APPENDIX A – Summary of Principal Legal Documents.”

After a substitution, the Former Property will be released from the leasehold, as appropriate. The Authority and the City will also make any amendments needed to be made to the Lease, and will enter into any necessary site or ground leases in connection with such substitution. Such amendments may be made without the consent of Bondowners. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments as a result of a substitution.

Release of Leased Property

Under the Lease, the City has the option at any time and from time to time during the term of the Lease to release from the Lease any portion of the Leased Property; provided that the City satisfies all of the requirements under the Lease that are conditions precedent to such removal, which include (among others) the following:

- No Event of Default has occurred and is continuing.
- The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to the Lease following such release is at least equal to the Lease Payments thereafter coming due and payable.

See "APPENDIX A - Summary of Principal Legal Documents."

THE BONDS

Authority for Issuance

The Bonds are being issued under the Bond Law, the Authority Resolution (which was adopted by the Board of the Authority on April 27, 2010), the City Resolution (which was adopted by the City Council on April 27, 2010), and the Indenture.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Bonds will be payable on May 1 and November 1 in each year, beginning November 1, 2010 (each an “**Interest Payment Date**”). Principal on the Bonds will be payable on May 1 in the amounts and in the years set forth on the inside front cover of this Official Statement.

While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “- Book-Entry Only System” below.

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

- 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,
- a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- 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.

Principal and premium, if any, with respect to each Bond is payable upon surrender of such Bond at the Office of the Trustee in San Francisco, California, upon maturity or the earlier redemption thereof.

The principal of, premium, if any, and interest on the Bonds will be payable in lawful money of the United States of America.

Calculation of Interest. Interest on the Bonds will accrue from the Interest Payment Date next preceding its date of authentication unless:

- (i) it is authenticated after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest with respect thereto will be payable from such Interest Payment Date, or

(ii) it is authenticated on or before the Record Date immediately preceding the first Interest Payment Date, in which event interest with respect thereto will be payable from its dated date.

However, if at the time of authentication of any Bond, interest with respect thereto is in default, interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or from its dated date if no interest has been paid or made available for payment.

Interest with respect to the Bonds will be computed on the basis of a 360-day year composed of 12 30-day months.

Transfer, Registration and Exchange

See "APPENDIX A - Summary of Principal Legal Documents" for a description of the provisions of the Indenture relating to the transfer, registration and exchange of the Bonds.

Redemption

Optional Redemption. The Bonds maturing on or before May 1, 20__ are not subject to optional redemption prior to their stated maturity. The Bonds maturing on or after May 1, 20__ are subject to redemption, as a whole or in part at the election of the Authority among maturities on such basis as designated by the Authority and by lot within a maturity, at the option of the Authority, on May 1, 20__ and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The Term Bonds maturing May 1, 20__ are subject to mandatory redemption, in part by lot, on May 1, 20__ in the years set forth in the following table, at a redemption price equal to the principal amount of the Bonds set forth in the following table, together with interest accrued thereon to the redemption date, without premium. If some but not all of the Term Bonds have been redeemed pursuant to an optional redemption as described above, the total amount of sinking fund payments to be made after such redemption will be reduced pro rata as described in the Indenture.

Term Bond maturing May 1, 20__

Sinking Fund Redemption Date <u>(May 1)</u>	Principal Amount <u>To Be Redeemed</u>
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Notice of Redemption. Notice of redemption will be mailed by the Trustee, first class, postage prepaid, not more than 60 and not less than 30 days before any redemption date, to the respective registered Owners of any Bonds designated for redemption at their addresses appearing on the registration books maintained by the Trustee and to one or more Securities Depositories and the Municipal Securities Rulemaking Board. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the Bonds to be redeemed from all 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, Bonds will be deemed to be comprised of \$5,000 portions and each portion will be subject to redemption as if such portion were a separate Bond.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See “APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds, assuming no optional redemption.

Year Ending May 1	2010 Bonds Principal	2010 Bonds Interest	Bonds Debt Service
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SECURITY FOR THE BONDS

The principal of and interest on the Bonds are not a debt of the Authority (except to the limited extent described in this Official Statement) or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture.

This section provides summaries of the security for the Bonds and certain provisions of the Indenture and the Lease. See "APPENDIX A - Summary of Principal Legal Documents" for a more complete summary of the Indenture and the Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Revenues

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, 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 relating to permitted amendments that provide for additional rental to be pledged or assigned for the payment of bonds issued to finance or refinance projects for which the City is authorized to expend its funds, and (ii) any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the Lease), and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Pursuant to the Assignment Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of its rights under the Lease, including its right to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds.

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

Lease Payments; Covenant to Appropriate

The City covenants, under the Lease, to make Lease Payments as rental for the right to use and occupy the Leased Property under the Lease. Amounts of the scheduled Lease Payments are calculated to be sufficient to pay debt service on the Bonds when due. Lease Payments will be paid by the City semiannually to the Trustee on or before the fifth Business Day immediately preceding each Interest Payment Date. Upon receipt, the Trustee will deposit the Lease Payments in the Bond Fund for the purposes of paying principal of and interest on the Bonds and replenishing the Reserve Account, if required. The City covenants under the Lease to take such action as may be necessary to include all Lease Payments and Additional Rent in its annual budgets and to make the necessary annual appropriations for all such rental payments.

Under certain circumstances described in the Lease, however, Lease Payments are subject to abatement during periods of substantial interference with the City's use and occupancy of all or a portion of the Leased Property, as described in " – Abatement" below.

Abatement

The Lease provides that the obligation of the City to pay Lease Payments will be abated by reason of (i) any damage or destruction such that there is substantial interference with the use and occupancy of all or any portion of the Leased Property, or (ii) a temporarily taking of the Leased Property or a permanent taking of a portion of the Leased Property. Such abatement will be in an amount determined by the City, such that the resulting unabated portion of the Lease Payments will represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property. 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.

Notwithstanding the foregoing, under the Lease, the Lease Payments will not be subject to abatement to the extent that the amounts in the Reserve Account or proceeds from rental interruption insurance are available to pay the portion of the Lease Payments which would otherwise be abated.

Insurance; Condemnation

In the event of an abatement of Lease Payments, debt service on the Bonds may, to a certain extent, be covered by insurance proceeds. The City is required to procure and maintain 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 certain hazards pursuant to the Lease. Such insurance will be in an amount at least equal to the maximum amount of Lease Payments coming due and payable during any consecutive two Fiscal Years. The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Bond Fund, for application as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

The Lease also requires the City to maintain title insurance, standard commercial general liability insurance and casualty insurance with respect to the Leased Property. Any Net Proceeds under such title insurance policy will be deposited with the Trustee in the Bond Fund, to be credited towards the prepayment of the remaining Lease Payments under the Lease. The required casualty insurance will have a coverage 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 Bonds, and may be subject to such deductibles as the City deems adequate and prudent.

If all or a portion of the Leased Property is damaged or destroyed, or taken under the power of eminent domain, proceeds from the casualty insurance or the condemnation award will be deposited in the Insurance and Condemnation Fund maintained by the Trustee. The City must apply all proceeds deposited in the Insurance and Condemnation Fund to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property or to replace any Leased Property taken in eminent domain proceedings.

In the event that the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, the (a) the Lease continues in full force and effect with respect to the Leased Property 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 of the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under the Lease.

See “BONDOWNERS’ RISKS – Abatement,” “– Application of Net Proceeds” and “– Risk of Uninsured Loss.”

Reserve Account

Pursuant to the Indenture, the Trustee will establish and maintain a Reserve Account in the Bond Fund. On or before each Interest Payment Date, after the required deposits to the Interest Account and the Principal Account have been made, the Trustee will deposit Revenues in the Reserve Account; provided, that no such deposit need to be made so long as the balance therein is equal to the “Reserve Requirement”. “**Reserve Requirement**,” as defined in the Indenture, means as of any date of calculation, maximum annual debt service on the Bonds.

Money on deposit in the Reserve Account will be used solely for the purpose of (i) paying principal of, or interest on, the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee will apply such amounts first, to the payment of interest and second, to the payment of principal.

Remedies

If the City defaults in performance of its obligations under the Lease, the Authority or the Trustee, as assignee of the Authority, may either terminate the Lease and re-enter and re-let all or a portion of the Leased Property or may retain the Lease and hold the City liable for all payments on an annual basis and still have the right to re-enter and re-let the Leased Property without effecting a surrender of the Lease. Additionally, the Trustee may pursue remedies at law or in equity to enforce the Lease.

Although the Lease and the Indenture provide that the Trustee, as assignee of the Authority, may take possession of the Leased Property if there is a default by the City, and the Lease provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, portions of the Leased Property may not be easily recoverable and, even if recovered, could be of little value to others. There can be no assurance that the Leased Property can be re-let for an amount equal to all outstanding Lease Payments. Due to the essential nature of the governmental functions of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. In addition, the remedy of repossession and re-letting may prove to be unavailable or not economically viable with respect to all or portions of the Leased Property because the Authority has only a leasehold or other possessory right to some of the Lease Property. Therefore, repossession of the Leased Property in such instances may not be an available remedy. In addition, assuming the Leased Property could be repossessed, it may prove functionally impossible to release.

THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under a Joint Exercise of Powers Agreement dated February 14, 2006 (the “**Joint Powers Agreement**”), between the City and the Redevelopment Agency of the City of Santa Cruz (the “**Agency**”), and under the laws of the State of California.

The Authority is governed by a board of directors made up ex officio of the members of the City Council of the City. Under the Joint Powers Agreement, the Mayor of the City as Chairman of the Authority and the Vice Mayor of the City serves as Vice Chairman of the Authority. The City Manager of the City serves as Executive Director of the Authority and the Finance Director of the City serves as Chief Financial Officer of the Authority. The Authority was created for the purpose providing assistance to the Agency and the City from time to time in connection with their financing programs, or for any other financing purposes authorized under the Bond Law.

The Joint Powers Agreement provides that the debts, liabilities and obligations of the Authority are not debts, liabilities and obligations of either the City or the Agency.

THE CITY

General

The County. Santa Cruz County is the second smallest county by area in California, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. It is located on the Pacific Ocean between the San Francisco Bay Area and the Monterey Peninsula. San Mateo County, which was originally part of Santa Cruz County, borders the county on the north. It is bordered by Santa Clara County on the east and by San Benito and Monterey counties on the south. The County's diverse topography has shaped the County's economy in terms of agricultural uses and tourism. In recent years the County has experienced growth in service industries and light manufacturing.

The City. The City, incorporated in 1866, is located on the northern part of the Monterey Bay approximately 74 miles south of San Francisco and 30 miles from San Jose. The City was first founded in 1769 by the Spanish explorer Don Gaspar de Portola, who, along with Father Junipero Serra, began land based settlement in the area. The City is the county seat for the County of Santa Cruz, and is a charter city which operates under the provisions of a voter-approved charter. The City has an area of 12 square miles and is the home to the University of California, Santa Cruz, which first opened in 1965 and has a current enrollment of over 15,000 students. UCSC has received worldwide recognition in the past few years for its high quality academic programs and sponsored research programs such as the California Institute for Quantitative Biomedical Research (QB3), the Center for Information Technology Research in the Interest of Society (CITRIS), and the Laboratory for Adaptive Optics.

City Services and Government. The City provides a broad range of services including police and fire protection, construction and maintenance of streets, parks, flood control and other infrastructure, a wharf facility, recreational and cultural activities including a performing arts center and human services programs. It also operates municipal utilities for water, wastewater, storm water, refuse collection, recycling and landfill disposal in addition to self supporting enterprise operations for parking facilities and a golf course. The water utility provides water service beyond the municipal boundaries and has a total service population of approximately 90,000. Certain infrastructure construction and community development activities are provided through a legally separate redevelopment agency. The Council sits as the agency's board and it functions, in essence, as a department of the City.

The City has operated under the council-manager form of government since its incorporation in 1866. Policy-making and legislative authority are vested in a seven member governing council consisting of the Mayor and six Council Members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council Members serve four-year staggered terms, with either three or four Council Members elected every two years. The Mayor is selected by a majority of the City Council and serves a one-year term. The Mayor and Council Members are elected at large and all are subject to two term limits.

FINANCIAL INFORMATION RELATING TO THE CITY'S GENERAL FUND

Budget Process

In accordance with applicable sections of the California Government Code and the City's Charter, an annual budget is adopted by the City Council no later than the first regular meeting in July for the fiscal year beginning July first. As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are reviewed, and a final City Manager recommended budget showing estimated revenues and expenditures of the City is prepared. This proposed budget is transmitted to the City Council and made available to the public for review. Study sessions and a public hearing are conducted before final adoption of the budget by the City Council.

The City Manager is authorized to approve appropriation transfers within any department up to a specified amount; however, any new appropriation or appropriation transfer between departments requires approval by the City Council. Several supplemental appropriations were necessary during the year and are reflected in the budget amounts in the financial statements. Expenditures may not legally exceed appropriations at the department level.

Under the City Charter, all unexpended appropriations lapse at the end of the fiscal year unless they are lawfully committed, or are required by law to be continuously appropriated from year to year.

Lawfully committed amounts include amounts legally encumbered at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at year-end are reported as reservation of fund balances since they do not constitute expenditures or liabilities, and re-appropriations in the subsequent year provide authority to complete these transactions as expenditures.

The Council reviews budget results at the mid-year review and at budget adoption. Redevelopment budgets are adopted annually along with an annual report. The ongoing review and long range planning focus for financial management provides numerous opportunities to identify and respond to changes in revenues and expenditures and in community priorities.

General Fund Budgets

General. The City's general fund budget figures for the year ended June 30, 2009, the City's audited actual figures for the year ending June 30, 2009 and general fund budget figures for the year ending June 30, 2010 (original and amended) are set forth in the following table.

Table 1
CITY OF SANTA CRUZ
General Fund Budgets
For Fiscal Years 2008-09 and 2009-10

	Budgeted <u>2008-09</u>	Actual <u>2008-09</u>	Adopted Budget <u>2009-10</u>	Amended Budget <u>2009-10</u>
Revenues:				
Taxes	\$49,678,874	\$45,830,628	\$43,175,659	\$43,175,659
Licenses and permits	690,500	648,785	619,400	619,400
Intergovernmental	1,174,485	580,477	755,105	1,258,080
Charges for services	23,814,265	21,574,770	21,555,190	21,645,690
Fines and forfeitures	2,372,417	2,243,843	2,521,750	2,527,250
Use of money and property	2,905,911	2,772,858		
Miscellaneous revenues	5,600	18,845	5,276,356	5,592,526
Transfers in	320,850	125,362	75,319	139,319
Transfers out	(727,031)	(360,036)	--	--
Other revenues	255,020	646,573	203,600	203,600
Total revenues	80,490,891	74,082,105	74,182,379	75,161,524
Expenditures:				
City Council	603,796	567,025	464,858	739,858
City Clerk	767,002	714,082	608,120	611,646
City Manager	1,215,883	1,046,746	943,888	987,532
City Attorney	940,725	754,247	845,328	845,328
Human Resources	2,870,523	2,623,171	2,722,771	2,732,127
Finance	2,539,201	2,319,162	2,522,453	2,518,775
Information and Technology	2,479,725	2,247,792	2,007,109	2,084,206
Police	22,966,756	22,736,224	21,227,058	21,366,689
Fire	12,377,918	12,377,918	12,229,683	12,281,489
Parks and Recreation	10,316,935	9,913,166	8,289,149	8,432,326
Library	11,121,905	10,193,470	8,904,852	8,904,852
Public Works	6,834,288	5,644,658	5,414,071	5,557,551
Planning and Community Development	4,976,208	3,628,412	3,936,471	4,765,841
Non-Departmental	3,166,448	3,129,630	2,507,268	2,507,268
Redevelopment Administration	1,093,622	1,093,622	1,369,160	1,369,160
Operating Transfers Out			431,604	431,604
Debt Service	876,209	201,440	297,786	297,786
City-wide No Activity	--	--	--	--
Total expenditures	85,147,144	79,190,765	74,721,629	76,434,038
Excess of revenues over (under) expenditures	(4,656,253)	(5,108,660)	(539,250)	(1,272,514)
Net change in fund balance			(539,250)	(1,272,514)

Source: City of Santa Cruz.

Fiscal Year 2007-08. In connection with the fiscal year 2007-08 budget, the City Manager prepared a memorandum to the City Council that highlighted a number of factors, including the following:

1. In most future years, the City's tax receipts will grow modestly – at or near the rate of inflation -- because of the built-out, limited-growth nature of the City.
2. Many of the City's most significant costs increase at rates that exceed the rate of inflation, including the cost of (a) compensation of City employees, in part because of competition for employees from the northern California employment market, (b) health benefits, (c) fuel and energy, (d) pensions, (e) workers' compensation and retiree health care benefits, (f) replacement of obsolete computer and other equipment, and (g) construction.
3. The demand for City services is growing, including police, fire, lifeguard, park/recreation and community services.

Fiscal Year 2008-09. The City began fiscal year 2008-09 with a projected \$5 million deficit. The deficit was attributable in large part to reduced tax receipts. In August 2008, a ballot measure (Measure T) relating to a "911" tax to support \$2.5 million of the cost of emergency dispatch services was defeated, which, combined with the worsening economy, combined to increase the projected fiscal year 2007-08 deficit to \$7 million. In November 2008, the City reduced the projected deficit by making \$2.8 million of service cuts (\$1.2 million recurring; \$827,850 one-time) and identifying \$1.6 million of new revenue. In December 2008, the City approved an additional \$1.8 million of service and budget cuts, and directed that the remaining \$2.4 million deficit be eliminated through salary reductions. The \$2.4 million of salary reductions were achieved through negotiation with the City's seven bargaining units by deferring scheduled cost-of-living increases and step/merit increases.

Primarily because of the continued decline in revenues, the General Fund incurred a \$5.1 operating deficit for fiscal year 2008-09 and ended the fiscal year with an unreserved, undesignated fund balance of \$6.9 million. See Table 2 below.

Fiscal Year 2009-10. The City has identified a \$6.7 million operating deficit that must be reduced to balance the fiscal year 2009-10 General Fund budget, not counting a proposed \$1.3 million State of California borrowing of property taxes from the City. The State takeaway of property taxes would bring the City's projected fiscal year 2009-10 deficit to \$8.0 million and cause the City to deplete its General Fund reserves by June 2010 if no corrective actions were taken. In response, the City and all employee bargaining units conducted new "meet and confer" discussions, in which significant salary and benefit reductions were accomplished. The City made up most of the remaining shortfall through a combination of reductions in budgeted expenditures of \$2.2 million and budgeted revenue increases of \$2.2 million.

The City currently projects that fiscal year 2009-10 expenditures will exceed revenues as of June 30, 2010, as shown in Table 1 and Table 3.

Fiscal Year 2010-11. With respect to fiscal year 2009-10 revenues, the City currently expects to receive the following approximate percentages of budgeted revenues in fiscal year 2009-10:

<u>General Fund Revenues</u>	<u>% of Budget</u>
Property Taxes	108%
Sales Taxes	97
Franchise Taxes	100
Transient Occupancy Taxes	98
Utility Users Taxes	98

The City's three largest sources of revenues are property taxes, sales taxes and the utility user's tax. With respect to property taxes, the City has assumed a 3% decline in assessed values in fiscal year 2010-11, however, the County Assessor has confirmed in conversations with City staff that the City's fiscal year 2010-11 assessed value is likely to be at least equal to its fiscal year 2009-10 assessed value. Sales taxes are no longer the City's largest source of tax receipts, and the City is not certain whether reduced sales tax revenues is part of a short-term (recessionary) trend or a long-term trend.

The City currently expects to finish fiscal year 2009-10 with an unreserved, undesignated General Fund balance of approximately \$6 million. The City anticipates the need to undertake further structural cost reductions in order to maintain a balanced budget in the future. See Table 3 below.

Financial Statements

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

Accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. There are three groups of funds- governmental funds (which include the General Fund), proprietary funds (which include enterprise funds and internal service funds) and fiduciary funds (which are used to account for resources held for the benefit of parties outside the City). The City maintains 16 individual governmental funds. Information is presented separately in the governmental statement of revenues, expenditures, and changes in fund balances for the General Fund and the Street Maintenance and Construction Fund, both of which are considered to be major funds. Data for the 14 other funds are combined into a single aggregated presentation.

All governmental funds and fiduciary funds use the modified accrual basis of accounting. The proprietary funds use the accrual basis of accounting. The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

Set forth in the following pages are a general fund balance sheet for fiscal years 2005-06 through 2008-09; a statement of revenues, expenditures and changes in fund balances for the City's general fund for the last four fiscal years and the 2009-10 budgeted year.

Table 2
CITY OF SANTA CRUZ
General Fund Balance Sheet
As of June 30 for Fiscal Years 2005-06 through 2008-09

	Audited <u>2005-06</u>	Audited <u>2006-07</u>	Audited <u>2007-08</u>	Audited <u>2008-09</u>
ASSETS:				
Cash and cash equivalents	\$ 19,778,125	\$ 19,019,016	\$ 18,276,227	\$ 10,733,823
Interest receivable	146,611	204,876	187,288	44,543
Taxes receivable	3,006,225	3,311,927	2,589,512	3,338,221
Accounts receivable- net	796,486	935,181	1,070,659	2,098,619
Due from other governments	276,046	325,222	175,873	187,444
Due from other funds	80,237	3,895,686	2,734,686	1,118,537
Prepaid items	205,218	475,776	49,317	59,716
Deposits	202,050	237,553	70,063	70,233
Notes receivable - net	330,775	266,964	215,252	178,372
Loans receivable - net	--	--	--	430,150
Advances to other funds	957,838	2,131,815	3,946,405	6,426,080
Total assets	\$ 25,779,611	\$ 30,804,016	\$29,315,282	\$24,685,738
LIABILITIES:				
Accounts payable and other current liabilities	\$ 2,641,189	\$ 3,358,803	\$ 3,296,419	3,916,015
Deferred revenue	204,645	125,728	77,567	89,836
Unearned revenue		617,556	38,994	32,850
Deposits payable	131,085	151,509	112,353	122,376
Claims and judgments payable		131,000	131,000	
Total liabilities	2,976,919	4,384,596	3,656,333	4,161,077
Fund Balances:				
Reserved	4,327,113	4,006,713		
Encumbrances			846,218	816,939
Noncurrent receivables and advances			4,161,658	6,950,467
Prepaid items			49,317	59,716
General plan update			1,095,000	811,080
Hardship grants			291,812	300,142
Unreserved, designated (1)	7,120,993	8,488,474	8,480,033	4,709,120
Unreserved, undesignated	11,354,586	13,924,233	10,734,911	6,877,197
Total fund balances	22,802,692	26,419,420	25,658,949	20,524,661
Total liabilities and fund balances	\$ 25,779,611	\$ 30,804,016	\$29,315,282	\$24,685,738

(1) \$3.7 million of the amount in this fund at June 30, 2009 relates to monies in the City's Public Trust Fund, a sub-fund of the City's general fund. The City Council adopted a policy for use of moneys in the Public Trust Fund which provides that interest earnings may be used on an annual basis to fund capital projects or to retire indebtedness used to finance capital projects, but neither principal nor interest may be used to meet operational needs with regularly recurring annual costs.
Source: City of Santa Cruz Audited Financial Statements.

Table 3
CITY OF SANTA CRUZ
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
for Fiscal Years 2005-06 through 2009-10

	Audited <u>2005-06</u>	Audited <u>2006-07</u>	Audited <u>2007-08</u>	Audited <u>2008-09</u>	Adopted Budget <u>2009-10</u>	Amended Budget <u>2009-10</u> ⁽²⁾
Revenues:						
Taxes ⁽¹⁾	\$39,495,863	\$42,837,408	\$45,809,387	\$45,830,628	\$43,175,659	\$43,175,659
Licenses and permits	615,448	824,258	935,191	648,785	619,400	619,400
Intergovernmental	1,073,997	1,563,745	854,975	580,477	755,105	1,258,080
Charges for services	19,062,464	19,786,417	22,559,336	21,574,770	21,555,190	21,645,690
Fines and forfeitures	1,962,697	2,218,082	2,123,686	2,243,843	2,521,750	2,527,250
Use of money and property	2,541,909	3,061,718	3,062,604	2,772,858	4,985,156	5,301,325
Other revenues	216,721	187,732	198,312	646,573	291,200	291,200
Total revenues	<u>64,969,099</u>	<u>70,479,360</u>	<u>75,543,491</u>	<u>74,297,934</u>	<u>73,903,460</u>	<u>74,818,604</u>
Expenditures:						
General government	9,666,858	12,261,663	13,982,305	14,568,766	14,328,944	15,330,089
Public safety	26,837,330	28,469,065	32,853,383	36,325,172	34,766,505	34,957,312
Parks and recreation	9,402,529	9,653,531	10,464,762	9,906,360	8,289,149	8,432,326
Library	9,250,499	9,693,097	10,298,783	10,193,470	8,904,852	8,904,852
Public works	3,565,397	4,233,034	4,642,061	4,793,841	4,539,890	4,653,702
Community and economic development	1,000,492	13,424	22,820	1,099,546	1,565,275	1,797,775
Social services	1,566,695	1,651,827	1,816,741	1,713,831	1,109,277	1,109,277
Capital outlay	765,851	1,338,184	1,024,209	403,562	488,347	519,314
Debt service: principal	204,928	178,385	146,019	151,302	268,349	268,349
Debt service: interest and fiscal charges	48,264	47,643	45,174	34,915	29,437	29,437
Total expenditures	<u>62,308,843</u>	<u>67,539,853</u>	<u>75,296,257</u>	<u>79,190,765</u>	<u>74,290,025</u>	<u>76,002,433</u>
Excess of revenues over (under) expenditures	2,660,256	2,939,507	247,234	(4,892,831)	(386,565)	(1,183,829)
Other financing sources (uses):						
Proceeds from asset disposition	25,256	62,804	46,045	18,845	--	--
Capital contributions- other funds	--	--	--	(25,628)	--	--
Proceeds from loan principal receipts	--	--	--	--	203,600	203,600
Transfers in	99,894	615,094	74,240	125,362	74,878	74,878
Transfers out	(19,509)	(677)	(1,127,990)	(360,036)	(431,163)	(431,163)
Total other financing sources (uses)	<u>105,641</u>	<u>677,221</u>	<u>(1,007,705)</u>	<u>(241,457)</u>	<u>(152,685)</u>	<u>(88,685)</u>
Net change in fund balance	2,765,897	3,616,728	(760,471)	(5,134,288)	(539,250)	(1,272,514)
Fund balance - July 1	20,036,795	22,802,692	26,419,420	25,658,949	20,524,661	20,524,661
Fund balance - June 30	<u>\$22,802,692</u>	<u>\$26,419,420</u>	<u>\$25,658,949</u>	<u>\$20,524,661</u>	<u>\$19,985,411</u>	<u>\$19,252,147</u> ⁽³⁾

(1) For a breakdown of each component of taxes, see the following table.

(2) Does not match the fiscal year 2009-10 Amended Budget column in Table 1 because certain intra-fund transfers (totaling \$442) are reported in the budgetary format but not the audit format.

(3) Based on its fiscal year 2009-10 amended budget, the City currently expects to have an unreserved undesignated General Fund balance of approximately \$6 million as of June 30, 2010.

Source: *City of Santa Cruz Audited Financial Statements; City of Santa Cruz.*

Taxes and Other Revenues

Taxes received by the City for the most recent fiscal years are listed in the table below.

Table 4
CITY OF SANTA CRUZ
Major Tax Revenues by Source- General Governmental Activities

	Audited <u>2003-04</u>	Audited <u>2004-05</u>	Audited <u>2005-06</u>	Audited <u>2006-07</u>	Audited <u>2007-08</u>	Audited <u>2008-09</u>
Property Taxes ⁽¹⁾	\$15,792,225	\$16,476,980	\$22,384,981	\$24,524,320	\$26,297,145	\$27,270,166
Sale and Use Taxes	9,084,026	11,383,231	11,738,917	12,770,015	14,665,124	13,513,829
Franchise Tax	3,329,454	3,478,971	2,136,686	2,607,388	2,911,919	2,972,281
Transient Occupancy Tax	3,016,463	3,067,869	3,385,148	3,750,509	3,685,248	3,723,788
Utility User's Tax	7,638,926	8,080,171	8,304,371	8,288,655	8,725,383	9,213,119
Admission Tax	1,724,330	1,629,164	1,715,133	1,909,011	1,964,404	1,877,431
Other Taxes	2,480,973	2,107,273	2,303,363	2,466,710	1,938,111	1,576,305
Total Taxes	\$43,066,397	\$46,223,659	\$51,968,599	\$56,316,608	\$60,187,334	\$60,146,919

(1) Includes Redevelopment tax increment.
Source: City of Santa Cruz.

Property Taxes

General. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City.

Property taxes represent the largest source of tax revenue to the City (approximately 45.3% of general governmental tax revenues in 2008-09). The City currently projects fiscal year 2009-10 property tax revenues will be \$13,500,000. Based on anticipated declines in assessed values for fiscal year 2010-11, the City currently expects property tax revenues to decline in fiscal year 2010-11. See “ – Assessed Valuation” below.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed over 20 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the CPI, whichever was less.

ERAF Shift and Triple Flip Legislation. Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in the Education Revenue Augmentation Fund (“ERAF”), a shift that has resulted in diversion of City property taxes since fiscal year 1992-93. See “State Budgets” below.

As discussed in “Sales and Use Taxes” below, on March 2, 2004, the State’s voters approved a bond initiative known as the “California Economic Recovery Act” which includes provisions known as “Triple Flip” legislation, calling for a diversion of a portion of local governments’ share of sales taxes to the State of California, and in return, a redirection of certain property taxes from the ERAF to local government.

Levy and Collection. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate

parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State of California and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Foreclosure. Based on data provided by MDA DataQuick/DQNews.com, home foreclosure data for one of the three zip codes in the City (95060), which covers most of the City, for the last 5 calendar years (including calendar year 2010 through March 19, 2010) is listed below:

<u>Calendar Year</u>	<u>Number of Home Foreclosures</u>
2006	2
2007	15
2008	34
2009	39
2010 (through 3/15/10)	8

Source: MDA DataQuick/DQNews.com.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS” in the body of the Official Statement.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and

schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

Assessed Valuation History. The following table shows a five-year history of the City’s assessed valuation.

Table 5
CITY OF SANTA CRUZ
Assessed Valuations of All Taxable Property
Fiscal Years 2005-06 to 2009-10

	Local Secured	Utility	Unsecured	Total Before Rdv. Increment	Percent Change
2005-06	\$5,462,129,358	\$951,481	\$216,627,737	\$5,679,708,576	8.2%
2006-07	5,985,674,750	862,012	219,805,452	6,206,342,214	9.3
2007-08	6,404,993,711	432,438	222,004,469	6,627,430,618	6.8
2008-09	6,695,172,331	432,438	219,837,712	6,915,442,481	4.3
2009-10	6,665,920,497	545,891	236,636,812	6,903,103,200	(0.2)

Source: California Municipal Statistics, Inc.

Fiscal Year 2009-10. For fiscal year 2009-10, the Santa Cruz County Assessor temporarily reduced the assessed value of certain properties in the City under Proposition 8. See “BOND OWNERS RISKS – Property Taxes” below.

Fiscal Year 2010-11. For planning purposes, based on projections generated by a third-party consultant, the City is assuming that its assessed value will decline by 3% in fiscal year 2010-11. The County Assessor has confirmed in conversations with City staff that the City’s fiscal year 2010-11 assessed value is likely to be at least equal to its fiscal year 2009-10 assessed value. The City expects the Assessor to release preliminary fiscal year 2010-11 assessed values in July 2010; until then, the City can provide no assurances about the actual level of fiscal year 2010-11 assessed values.

Major Property Taxpayers. The following table shows the twenty largest taxpayers in the City as determined by their secured assessed valuations in 2009-10:

**Table 6
CITY OF SANTA CRUZ
Largest 2009-10 Local Secured Taxpayers**

	Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total (1)
1.	Santa Cruz Seaside Co.	Recreational	\$ 56,141,548	0.84%
2.	Cypress Point RE Investors LLC	Apartments	42,209,111	0.63
3.	SC Beach Hotel Partners LLC	Hotel/Motel	41,349,240	0.62
4.	Santa Cruz Shaffer Road Investors	Apartments	33,748,611	0.51
5.	Frederick Electronics Corporation	Industrial	32,237,080	0.48
6.	1010 Pacific Investors	Commercial	23,014,424	0.35
7.	Essex Chestnut Apartments	Apartments	22,161,500	0.33
8.	CFRI/Seagate Ocean Street LLC	Hotel/Motel	22,581,729	0.34
9.	Cooper House LLC	Commercial	18,513,994	0.28
10.	Santa Cruz River Street LLC	Apartments	20,049,355	0.30
11.	The Price Company/Costco	Commercial	23,378,080	0.35
12.	University Business Park LLC	Industrial	21,013,415	0.32
13.	Harmony Partners LLC	Industrial	19,717,638	0.30
14.	1200 Pacific LLC	Commercial	14,615,288	0.22
15.	Gateway Plaza Associates LLC	Commercial	14,349,076	0.22
16.	Green Valley Corporation	Commercial	14,481,844	0.22
17.	Louis Emme Rittenhouse	Commercial	14,496,418	0.22
18.	Pacific Square LP	Mixed Use	12,539,271	0.19
19.	Wave Crest Development Inc.	Commercial	13,552,863	0.20
20.	Encinal Street LLC	Commercial	13,181,155	0.20
21.	CW Swenson Inc.	Industrial	9,302,091	0.14
22.	RTP-Delaware Avenue LLC	Industrial	11,673,288	0.18
23.	Canfield Laurel and Pacific LP	Mixed Use	9,185,866	0.14
24.	Cornell Springs Partners	Assisted Living	10,486,401	0.16
25.	BEI-Scott Company LLC	Hotel/Motel	<u>13,669,718</u>	<u>0.21</u>
			<u>\$527,649,004</u>	<u>7.92%</u>

(1) Fiscal Year 2009-10 Local Secured Assessed Valuation: \$6,665,920,497.
Source: Santa Cruz County Assessor.

Impact of Proposition 1A Borrowing. The declaration by the State of California of a fiscal emergency under Proposition 1A and a subsequent take-away of the equivalent of 8% of fiscal year 2008-09 property related tax revenues from cities is expected to have an impact of approximately \$1.3 million on the City in fiscal year 2009-10. These tax revenues must be paid back by the State with interest within three years. The City does not believe any amendments to its fiscal year 2009-10 budget are required in response to the Proposition 1A take-away. The City's fiscal year 2009-10 budget assumed the Proposition 1A take-away. The City participated in the Proposition 1A securitization program, and will receive 100% of the amount of the property tax reduction in two payments: it received 50% on January 15, 2010 and it will receive 50% on May 3, 2010.

Teeter Plan. The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on

an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies on secured property for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections.

The ad valorem property tax to be levied to pay the interest on and principal of the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in fiscal year 2009-10. The City will receive 100% of the ad valorem property tax on secured property levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

Sales and Use Taxes

Sales and use taxes represent the second largest source of tax revenue to the City (approximately 22.5% of general governmental tax revenues in 2008-09). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State of California. The City currently projects \$12,270,000 in sales tax revenue for fiscal year 2009-10, which would be a decrease of approximately \$1,244,000 or 9.22% from the prior year.

Sales Tax Rates. The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by the State Board of Equalization) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"), as shown below. As part of the State's 2003-04 Budget, the State Legislature authorized, and the voters of the State approved, a redirection to the State from local jurisdictions (including the City) of sales revenues in the amount of 0.25% of the basic 1.0% local sales tax rate, starting July 1, 2004. The State of California uses such revenues to pay the State's economic recovery bonds. Under the California Economic Recovery Act, which includes legislation commonly referred to as the "Triple Flip", the State redirected certain property taxes in the Education Augmentation Revenue Fund ("**ERAF**") to local governments, including the City, to compensate for this redirection of sales taxes on a "dollar for dollar" basis. Under this legislation, along with the guarantees provided by the passage of Proposition 1A in November 2004, the City expects that there will not be any significant fiscal impacts on the City resulting from the "Triple Flip".

At an election held on March 2, 2004, the voters of the City approved (by a majority vote) a measure to increase the sales tax in the City by 0.25%, to be used by the City for general purposes. The tax was scheduled to expire in 2009. At an election held on November 7, 2006, the voters of the City approved (by a majority vote) a measure to replace such sales tax with a 0.50% sales tax to be used by the City for general purposes. The new sales tax does not have a scheduled termination date.

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**Table 7
CITY OF SANTA CRUZ
Sales Tax Rates
Fiscal Year 2009-10**

State (General Fund)	6.000% ⁽¹⁾
State (Fiscal Recovery Fund)	0.250
State (Local Revenue Fund)	0.500
State (Local Public Safety Fund))	0.500
Local (City and County Operations)	0.750
Local (County Transportation Funds)	<u>0.250</u>
Total State-Wide Tax Rate	8.250%
Santa Cruz County Public Library Transactions and Use Tax	0.250
Santa Cruz Metropolitan Transit District	0.500
City of Santa Cruz Replacement Transactions and Use Tax	<u>0.500</u>
Total City of Santa Cruz Tax Rate	9.500%

(1) Effective April 11, 2009, the sales tax rate increased by 1.00% through June 30, 2011.
Source: California State Board of Equalization.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State of California. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State of California where the use will occur within the State of California. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's June 2005 Publication No. 61 entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov/>.

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Authority first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

History of Taxable Transactions. Total taxable sales reported during the first quarter of calendar year 2009 in the City were reported to be \$156,001,000, a 16.2% decrease over the total taxable sales of \$186,193,000 reported during the first quarter of calendar year 2008. A summary of historic taxable sales within the City is shown in the following table. Annual figures for 2009 are not yet available.

**Table 8
CITY OF SANTA CRUZ
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	1,039	\$649,480	2,316	\$795,060
2005	1,040	674,873	2,222	813,834
2006	1,031	688,502	2,131	837,511
2007	1,004	691,021	2,131	851,755
2008	1,054	651,783	2,187	802,882

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Other Taxes and Revenues

Utility User's Tax. The utility users tax is the third largest revenue source for the City. The utility users tax is comprised of a tax on eight utilities; electric, wired telecom, wireless telecom, natural gas, cable, water, wastewater, and refuse (the last three being municipal utilities).

The City's history of enactments regarding its Utility Users Tax is summarized as follows:

**Table 9
CITY OF SANTA CRUZ
Utility Users Tax History**

<u>Effective Date</u>	<u>Utility Covered</u>	<u>Rate</u>
July 1, 1984	Electric*, Gas*, TV, Telephone**	5%
September 1, 1988	Same	6%
October 1, 1991	Same, plus City Water, Sewer, and Refuse collection	7%
July 13, 1993	Eliminated \$34 Residential Exemption*	
September 14, 1994	Same, plus Intrastate Long Distance Telephone	7%
November 15, 1994	Same, plus Cellular Base Charge	7%

* Exemption on first \$34 of gas or electric charges for residential properties.

** Telephone did not include intrastate or cellular as of this date, but has since been included

Source: City of Santa Cruz.

The City's initial Utility Users Tax (the five percent tax on electric, gas, cable television and telephone utilities with the exceptions noted above) became effective on July 1, 1984, well prior to the August 1, 1985, initial application date of Proposition 62. Therefore, Proposition 62 on its face has no application to the City's Utility Users Tax as effective on July 1, 1984.

Transient Occupancy Tax. The City currently levies a transient occupancy tax on hotel and motel bills equal to 10%. The transient occupancy tax is a tax paid by hotel and motel guests who spend fewer than 30 consecutive days in a hotel or motel in the City. In addition, in November 2002, the voters in the City approved the adoption of an ordinance to impose a special 1% transient occupancy tax, which would fund the Santa Cruz Conference and Visitors Council.

Recently, the operators of nine hotels in the City challenged the ordinance levying the transient occupancy tax, on various grounds including that it was unconstitutionally vague and a violation of equal protection. In a decision filed on September 18, 2007, the California Court of Appeals for the Sixth District upheld the validity of the ordinance against such challenge. No appeal was filed.

Franchise Tax. At an election held in August, 2005, a 58% majority of the City's voters approved a measure to enact a franchise tax on municipal utilities. Such tax replaced an in lieu fee which the City had previously levied on its water, sewer and refuse collection enterprises, in response to the decision of a California appellate court holding that such in lieu fees violated Article XIID of the California Constitution (Proposition 218). Proceeds of the tax are deposited into the City's general fund. The franchise tax is computed as follows: 3% of charges made by the City for water delivered to the service user (including monthly service charge); 3% of charges made by the City for sewer service received by the service user; 12% of charges made by the City for refuse collection/recycling service received by the service user. The franchise tax is separate from, and in addition to, the utility user's tax which is discussed above. By converting the in lieu fee to a franchise tax, the City experienced a reduction in the overall amount collected, as shown in Table 11 above.

State Budgets

The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. The State's 2008-09 and 2009-10 budgets contain a number of measures that impact the finances of local agencies.

Information on Current State Budget Difficulties. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and

Government, State Finances, State Indebtedness, Litigation” from the State’s most current Official Statement, which discusses the State budget and its impact on school districts.

The California Department of Finance’s Internet home page at www.dof.ca.gov, under the heading “California Budget,” includes the text of proposed and adopted State Budgets.

The State Legislative Analyst’s Office the (“**LAO**”) prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst’s Internet home page at www.lao.ca.gov under the heading “Products.”

2008-09 State Budget. On September 23, 2008, the Governor signed the 2008-09 State Budget into law (the “**2008-09 Budget**”). The 2008-09 Budget resolved the \$24.3 billion budget deficit identified in the May (2008) revision to the Governor’s Proposed Budget. The 2008-09 Budget, as adopted, projected revenues of \$103.027 billion in fiscal year 2007-08 and \$101.991 billion in fiscal year 2008-09 (representing an increase of \$1.837 billion in fiscal year 2007-08 and a decrease of \$996 million in fiscal year 2008-09, compared with the May Revision), provided a modest reserve of \$1.7 billion, but projected a deficit of \$1.0 billion in fiscal year 2009-10.

Special Session - Revisions to 2008-09 Budget; 2009-10 Adopted State Budget. Through a series of legislative actions that occurred from November 5, 2008 through February 20, 2009, the State legislature and the Governor enacted a budget package addressing the 2008-09 Budget deficit, and adopting a budget for fiscal year 2009-10.

On March 13, 2009, the LAO updated its revenue forecast and projected that revenues would fall short of the assumptions in the 2009-10 Budget by \$8 billion and that number of the adopted solutions—revenue increases and spending reductions—are of a short-term duration. Thus, without corrective actions, the State’s huge operating shortfalls will reappear in future years—growing from \$12.6 billion in 2010–11 to \$26 billion in 2013.

On May 7, 2009, the LAO reported that, as result of the budget and cash pressures of recent months, the General Fund’s “cash cushion”—the monies available to pay State bills at any given time—currently is projected to end fiscal year 2008 09 at a much lower level than normal. Without additional legislative measures to address the State’s fiscal difficulties or unprecedented amounts of borrowing from the short-term credit markets, the State will not be able to pay many of its bills on time for much of fiscal year 2009 10.

May 14, 2009 Budget Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. On May 14, 2009, the Governor released the May Revision, which included two alternative proposals to revise the State budget to address the State’s increasing deficit. The specific proposal to be considered depended, in part, on the result of certain statewide ballot measures decided by the voters on the May 19, 2009 special election ballot.

Because State voters rejected the three propositions on the special election ballot that would have helped balance the State’s budget, the Governor estimates a budget shortfall of \$21 billion in 2009-10.

Governor Declares Fiscal Emergency. The Governor announced on July 1 that the budget deficit had grown by \$2 billion to \$26.3 billion due to the failure of State lawmakers to adopt immediate education cuts and money-shifting plans by the June 30 fiscal year end. He

declared a fiscal emergency and ordered a Proposition 58 special session of the Legislature to solve the State's deficit. To address the State's cash crisis, on July 2 the State began issuing registered warrants, or IOUs, to several classes of creditors, including certain local governments.

2009-10 State Budget Amendments; Proposition 1A Borrowing. On July 24, 2009, the California legislature approved amendments to the 2009-10 Budget involving 30 separate pieces of legislation to close the \$26.3 billion shortfall. The Governor signed the budget plan on July 28, 2009. Total general fund spending in fiscal year 2009-10 will be more than \$84 billion, down from nearly \$91.7 billion in fiscal year 2008-09 and nearly \$103 billion in fiscal year 2007-08. The budget amendments combine deep spending cuts, borrowing from local governments and accounting maneuvers.

The approved amendments include borrowing from local governments and various accounting maneuvers to generate additional revenues in the 2009-10, including (among many others) \$2 billion borrowed from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), but the State must repay the borrowing with interest within three years (see " – Property Taxes" above).

The accounting shifts rely on the assumption that an economic recovery will be well underway in the next fiscal year and some economists believe that they produce a significant budget shortfall next year. Additionally, borrowing revenues from local governments is likely to result in litigation.

Governor's Proposed Budget. The Governor submitted his proposed 2010-11 Budget (the "2010-11 Proposed Budget") to the State Legislature on January 8, 2010. The 2010-11 Proposed Budget assumes that, without corrective action, the State will face a deficit of \$19.9 billion, comprised of a shortfall of \$6.6 billion from the 2009-10 fiscal year, a 2010-11 shortfall of \$12.3 billion and a proposed reserve of \$1 billion. The 2010-11 Proposed Budget proposes initial spending reductions of \$8.5 billion. Proposed reductions include program eliminations, further reductions to various health and human services programs, a \$2.4 billion reduction to the anticipated level of funding for Proposition 98 (over a two-year period), substantial changes to employee compensation, and reductions to the Department of Corrections and Rehabilitation. In addition, the 2010-11 Proposed Budget relies on \$6.9 billion in additional federal funding and proposes an additional \$4.6 billion in spending reductions if the federal funding is not received. The 2010-11 Proposed Budget also includes \$2.4 billion in increased revenues and requires external borrowing to meet cash needs during the fiscal year.

The Governor has called the Legislature to a special session to adopt \$8.9 billion of the proposed \$19.9 billion in budget solutions and to put measures on the June 2010 ballot to facilitate \$1 billion in general fund budget relief from Proposition 10 early childhood development funds and Proposition 63 mental health funds.

LAO Report. On January 12, 2010, the LAO commented on the 2010-11 Proposed Budget, stating that the Governor's estimate of a \$18.9 billion budget problem is reasonable but is a \$3.1 billion smaller shortfall than the LAO estimates and may be exacerbated by various lawsuits. The LAO also noted that the Governor's plan relies heavily on federal relief, which the state is unlikely to receive in the amounts requested. The Legislature needs to assume that the federal relief will total billions less than the Governor budgets for and will need to make difficult decisions regarding both revenues and spending and needs to make many key decisions by the end of March in order to implement them for the next fiscal year.

2010-11 Special Session. On March 11, 2010, the California Legislature adjourned the special session called by the Governor. The Legislature adopted a package of bills that the Legislature said would reduce the deficit by more than \$4 billion. Since then, the Governor vetoed two bills that contained a majority of the deficit reductions.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. 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. Decrease in such revenues may have an adverse impact on the City's ability to pay Lease Payments.

Long-Term Obligations

General Fund Obligations. Set forth below is a summary of long-term obligations payable from the City's general fund.

1998 Certificates of Participation. The 1998 Certificates will be defeased and prepaid with proceeds of the Bonds.

2001 Certificates of Participation. In April 2001, the City caused execution and delivery of \$4,415,000 2001 Certificates of Participation (Civic Center Improvement Project) to finance the acquisition and construction of the Civic Center Improvement project. These certificates of participation are referred to as the 2001 Certificates in this Official Statement. The balance outstanding as of June 30, 2009 was \$3,730,000. At the time of pricing of the Bonds, the City may decide to refinance the 2001 Certificates.

2004 Certificates of Participation. In June 2004, the City caused execution and delivery of \$5,290,000 Certificates of Participation (City of Santa Cruz Golf Course Improvement Project) to finance the construction of improvements to the DeLaveaga Golf Course. The balance outstanding as of June 30, 2009 was \$4,915,000.

Lease Payment Obligations. The City's general fund is obligated to make Use Payments to the Santa Cruz Consolidated Emergency Communications Center Joint Powers Authority for the City's defined share of the annual total rental/lease payments for the repayment of Lease Revenue Bonds issued in 2002 by the Santa Cruz County Public Financing Authority to fund an emergency communications center project. The City's share is 22.86%, and as of June 30, 2009, amounts to \$370,509. The City is also responsible for paying a pro rata portion of related operating expenses.

In June 2002, the City acquired land under a capital lease agreement with Zion's First National Bank in the amount of \$765,000. The agreement is payable in semi-annual installments of \$61,362 through 2021. The balance outstanding at June 30, 2009 was \$546,578.

In December 2007, the Authority issued its \$6,880,000 initial principal amount 2007 Lease Revenue Bonds (Public Library and Water Department Project) to finance the costs of acquisition of land and improvements to be used for public library and water department purposes. As of June 30, 2009, the outstanding principal amount was \$6,755,000.

General Obligation Bonds. In December 2009 the City issued \$6,995,000 2009 General Obligation Refunding Bonds, to refund all of the outstanding general obligation bonds

of the City. The 2009 General Obligation Refunding Bonds have a final maturity in 2029, and are payable from *ad valorem* taxes levied on taxable parcels in the City.

Employee Relations

The City had 776 authorized positions at the beginning of fiscal year 2009-10, of which 93 were sworn police personnel and 48 were fire personnel, although 3 additional fire positions may be funded on a one-time basis with stimulus funds. The City's employees are represented by eight bargaining units. The service employees are currently under a contract which expires November 12, 2010, and all other groups (including police and fire personnel) are under agreements that expire at various times ranging between June 2010 and August 2011.

Risk Management

The City uses a program of self-insurance for workers' compensation and general liability claims, and employs a professional risk manager, supplemented by a professional claim administration firm, to minimize losses. The City also participates in a multi-agency joint powers authority to provide excess insurance coverage for liability coverage. The joint powers authority and the City rely on estimates prepared by professional actuaries to set aside funds adequate to meet potential future losses.

See Note 8 in the City's fiscal year 2008-09 audited financial statements (Appendix B) for additional information about the City's risk management practices.

Employee Retirement System

Retirement Plan. The City contributes to the Public Employees' Retirement System of the State of California ("PERS"), an agent multiple-employer public employee retirement program that acts as a common investment and administrative agent for participating entities within the State of California. Benefit provision and all other requirements are established by State statute and City ordinance.

Funding Policy. City employees are required to contribute 9% of annual covered salary for safety employees and 7% of annual covered salary for all other employees. The City is required to contribute at an actuarially determined rate (based on annual covered payroll); the fiscal year 2008-09 rate was 13.229% for miscellaneous employees, 37.513% for police safety employees, and 40.969% for fire safety employees.

During the first half of fiscal year 2007-08, miscellaneous employees continued a cost-sharing agreement whereby the employee was required to pay the employer share above 6.354%, a portion on a pre-tax basis and a portion on a post-tax basis. In November 2007 and January 2008, all contracts for miscellaneous employees were negotiated to reduce the employee contribution to 7%.

Annual Pension Cost. The City's annual pension costs for the fiscal years 2006-07, 2007-08 and 2008-09 are shown in the following table:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>
June 30, 2007	\$ 6,462,742
June 30, 2008	9,024,674
June 20, 2009	11,301,802

Unfunded Actuarial Accrued Liability. The table below shows the recent history of the actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability to payroll for the City. More information is available in Note 10 of the City's 2008-09 audited financial statements attached as Appendix B.

Since the City has less than 100 active members in Fire and Police plans in at least one valuation since June 30, 2004, the City is required to participate in a risk pool. An actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City is not available.

Table 10
CITY OF SANTA CRUZ
Trend Information for PERS

Valuation Date	Actuarial Value Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL/Excess Assets	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<u>Miscellaneous</u>						
<u>Employees</u>						
6/30/2006	\$164,898,761	\$183,410,717	\$18,511,956	89.9%	\$33,001,059	56.1
6/30/2007	181,207,670	200,228,705	19,021,035	90.5	34,999,086	54.3
6/30/2008	196,880,882	224,181,921	27,301,039	87.8	39,734,245	68.7

Source: City of Santa Cruz.

Current Underfunding of Pension Obligations. As one of the expenditure reduction measures intended to balance its budget, the City negotiated with its labor groups a 10% furlough program for all regular non-safety employees for fiscal year 2009-10; these City employees work and are paid for 36 hours per week rather than for 40. In addition, the City negotiated with the labor group representing police officers a 5% deduction from their gross paychecks, while they still worked a 40-hour workweek; the City negotiated a 10% deduction for non-safety employees; and an approximately 5% deduction for police safety employees. Because the City is obligated to fund its pension plan on the basis of the annual gross rate of compensation rather than the annual amount of compensation, and because the City has been funding its pension plan based on the amount paid to employees rather than the employees' rate of pay, the City has been underfunding its pension plan by approximately 5% for police safety employees and 10% for non-police safety employees. No underfunding occurred for fire safety employees. **[Disclose additional actuarial information]**

Other Post-Employment Retirement Benefits

General. In April 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits ("OPEB") plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the City for the fiscal year ending June 30, 2009.

Subsequently, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45's provisions

may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

As required, the City has adopted GASB 43/45 beginning with fiscal year 2008-09.

City Plan Description. The City of Santa Cruz Post-Retirement Health Care Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by PERs. The plan provides healthcare benefits to eligible retirees. The City contributes the Public Employees’ Medical and Hospital Care Act (“PEMHCA”) minimum required employer contribution of \$101 per month towards the retiree monthly premium for eligible retirees participating in PEMHCA.

All part-time and full-time regular employees that meet specified Memorandum of Understanding continuous service and minimum age requirements are also eligible to receive a Retiree Medical Incentive. Employees must meet certain minimum eligibility requirements:

- Service – Ten years of continued service with the City and be at least 55 years of age
- Supervisor – Ten years of continued service with the City and be at least age 50 years of age
- Management – Five years of continued service with the City and be at least 50 years of age
- Public Safety - Five years of continued service with the City and be at least 50 years of age

Retiree medical incentives will be provided until the retiree becomes eligible for Medicare or discontinues PERS medical coverage. The City Council and unions have the authority to negotiate and amend benefit provisions to the Retiree Medical Incentive.

Funding Policy. There is no statutory requirement for the City to prefund its OPEB obligation. The City has currently chosen to pay plan benefits on a pay-as-you-go basis. In fiscal year 2008-09, the City contributed the following amounts for eligible employees:

OPEB	No. of Employees	Amount
Required Employer Contribution	158	\$186,975
Retire Medical Incentive	1	<u>108,253</u>
Total 2008-09 OPEB Costs		\$295,228

Annual OPEB Cost and Net OPEB Obligation. The Annual Required Contribution (“ARC”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s Net OPEB obligation:

Annual required contribution	\$ 1,742,000
Interest on net OPEB obligation	--
Adjustment to annual required contribution	<u> --</u>
Annual OPEB cost (expense)	1,742,000
Contributions (benefit payments)	<u> (295,228)</u>
Increase in net OPEB obligation	\$ 1,446,772
Net OPEB obligation – beginning of year	<u> --</u>
Net OPEB obligation – end of year	\$ 1,446,772

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008-09 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,742,000	\$295,228	20.41%	\$ 1,446,772

Funded Status and Funding Progress. As of July 1, 2008, the plan’s most recent actuarial valuation date, the Plan was not funded. The schedule of funding progress is as follows:

Actuarial accrued liability (AAL)	\$ 15,596,000
Actuarial value of plan assets	<u> --</u>
Unfunded actuarial accrued liability (UAAL)	\$ (15,596,000)
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active Plan members)	\$ 61,935,000
UAAL as a percentage of covered payroll	25.18%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments 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.

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 the 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 value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 5% interest rate (used to discount results to present value), covered payroll rising 3.25% annually, premiums rising 5% annually, the PERS minimum employer contribution rising 4% annually, and the same mortality, retirement, and turnover rates used in the City's pension costs. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of increasing payroll. Payments are set to rise 3.25% annually, so that they are expected to remain a constant percentage of covered payrolls.

Investment Policies and Procedures

The City invests its funds in accordance with the City's Investment and Portfolio Policy (the "**Investment Policy**"), which is subject to annual review and approval by the City Council. The purpose of the Investment Policy is to establish the investment goals of safety, liquidity, and yield (in that order). The City's Investment Policy complies with the provisions of the California government Code, Sections 53600 through 53659 (the authority governing investments for municipal governments in the State). The Investment Policy limits the City to investments authorized by State law. In addition, the Investment Policy establishes further guidelines.

The overall strategy of the Investment Policy is to earn a market rate of return, while maintaining sufficient liquidity to meet operating cash requirements. This is accomplished by maintaining a portfolio of allowable investment instruments that have acceptable credit quality standards with maturities matching expected cash needs. The City does not actively trade securities in the open market. The City utilizes a "buy and hold" approach, which means that it holds securities until maturity.

The City Council reviews monthly investment reports. According to the report for the month ended February 28, 2010, the City has invested funds as set forth in the table below, which had a weighted average maturity of 103 days based upon the earlier to occur of maturity or redemption.

Table 11
CITY OF SANTA CRUZ
Investment Portfolio as of February 28, 2010

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Mat./Call	YTM/C
Certificates of Deposit – Bank	\$696,000.00	\$696,000.00	\$696,000.00	0.64%	1,669	211	4.151%
Local Agency Investment Funds	72,760,376.27	72,829,340.38	72,760,376.27	66.70	1	1	0.577
Federal Agency Coupon Securities	12,000,000.00	12,198,120.00	11,998,314.22	11.00	929	575	2.333
Federal Agency Callables	23,630,000.00	23,751,480.00	23,626,183.25	21.66	1,061	173	1.983
	<u>109,086,376.27</u>	<u>109,474,940.38</u>	<u>109,080,873.74</u>	<u>100.00%</u>	<u>343</u>	<u>103</u>	<u>1.098</u>
Cash and Accrued Interest							
Accrued Interest at Purchase		451.39	451.39				
Ending Accrued Interest		292,928.90	292,928.90				
Subtotal		293,380.29	293,380.29				
	<u>109,086,376.27</u>	<u>109,768,320.67</u>	<u>109,374,254.03</u>		<u>343</u>	<u>103</u>	<u>1.098</u>

Source: *City of Santa Cruz*.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 (“**Proposition 13**”), which added Article XIII A to the State Constitution (“**Article XIII A**”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Litigation Regarding 2% Limitation. In a Minute Order issued on November 2, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, Case No. 00CC03385, the Orange County Superior Court held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties use a similar methodology in raising the taxable values of property beyond 2% in a single year. On December 27, 2001, the Orange County Superior Court issued an order declaring the practice of “recapturing” to be unconstitutional. That order only applied to one property in Seal Beach. The court entered a Final Judgment on April 18, 2003.

In 2002 two local courts (Los Angeles and San Diego) ruled differently on the “recapture” issue. Orange County, the Orange County Tax Collector and the Orange County Assessor appealed the Superior Court ruling to the Court of Appeal of the State of California, Fourth Appellate District. The Appellate Court held a hearing on the matter on January 7, 2004, and issued its ruling on March 26, 2004, reversing the trial court. The Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment, and ruled that that the 2% annual inflation adjustment provision permits a maximum 2% annual increase calculated against the original acquisition cost base, rather than calculated against any reduced base resulting from any intervening downward reassessment in the wake of a decline in property values, such as what might happen with a general deflation or a disaster. On May 6, 2004, the case was appealed to the California Supreme Court (as Case No. S124682), which denied review on July 21, 2004, thereby

affirming the Court of Appeal's decision, which currently represents the applicable law that is binding on county assessors statewide.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989. Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Appropriation Limitation - Article XIII B

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the State Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIII B in certain respects. Under Article XIII B, as amended, state and local government entities each have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of most tax revenues and certain state subventions, together called "proceeds of taxes," and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of monies which are excluded from the definition of "appropriations limit," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two thirds of the voters. The "appropriations limit" is adjusted annually for changes in the cost of living and in population, for transfers in the financial responsibility for providing services, and in the case of certain declared emergencies. If an entity receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the entity's governing board, increase its appropriations limit to equal that amount (provided that the State has excess appropriations limit of its own in that fiscal year).

Voter Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, the most recent of which was approved as Proposition 218 in the general election held on November 5, 1996.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies. 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 Payments.

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 the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add 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 new 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 impairments of contracts.

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the City and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The City is not able to predict the outcome of any such examination.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes (or increases thereof) were either adopted prior to the effective dates of such propositions or were approved (or ratified) by majority vote of the electorate. Consequently, the City believes that none of its current revenues will be negatively impacted by Proposition 218.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Certificates as

well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a “**general tax**”) must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a “**special tax**”) must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency’s property tax allocation.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. The City does not believe any of the taxes constituting City revenues are levied in violation of Proposition 62.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“**Unitary Property**”), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Future Initiatives

Article XIII A, Article XIII B, Proposition 62 and Proposition 1A and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time, other initiative measures could be adopted, further affecting the City or its revenues or the ability of the City to expend revenues.

State Budgets

The State of California is likely to continue to face significant budget issues for the foreseeable future. In connection with its approval of former budgets, the State Legislature enacted legislation that has a direct impact on the financial situation of cities and counties in the State. See "FINANCIAL INFORMATION RELATING TO THE CITY'S GENERAL FUND- State Budgets."

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Limited Obligations of the Authority

The Bonds are limited obligations of the Authority and are payable solely from, and secured by, a pledge of Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments payable by the City under the Lease. If, for any reason, the Revenues collected under the Indenture are not sufficient to pay debt service on the Bonds, the Authority will not be obligated to utilize any other of its funds, other than moneys on deposit in the Bond Fund, the Reserve Account and certain other funds and accounts established under the Indenture, to pay debt service on the Bonds. The Authority has no taxing power.

No Pledge of Taxes

General. The obligation of the City to pay the Lease Payments and Additional Rental does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments and Additional Rental does not constitute a debt or indebtedness of the Authority, the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Limitations on Taxes and Fees. Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIII C and Article XIII D of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIII C and Article XIII D of the State Constitution are eliminated or

substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIIC and Article XIID of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIC and Article XIID of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Additional Obligations of the City

The City has existing obligations payable from its General Fund. See "FINANCIAL INFORMATION REGARDING THE CITY OF SANTA CRUZ - Outstanding General Fund Obligations." The City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Site and Facilities, taxes and other governmental charges levied against the Site and Facilities) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Default

Whenever any event of default referred to in the Lease happens and continues, the Authority is authorized under the terms of the Lease to exercise any and all remedies available under law or granted under the Lease. See "APPENDIX A - Summary of Principal Legal Documents" for a detailed description of available remedies in the case of a default under the Lease.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease. The Trustee is not empowered to sell the Site and Facilities and use the proceeds of such sale to prepay the Bonds or pay debt service on the Bonds.

The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Site and

Facilities, the City's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Bonds as and when due. See "SECURITY FOR THE BONDS - Abatement" and "APPENDIX A - Summary of Principal Legal Documents."

Property Taxes

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City's property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Lease Payments. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the City's ability to pay principal of and interest on the Bonds when due.

Reduction in Inflationary Rate. Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation in the following fiscal years: 1983-84 (1.010%); 1995-96 (1.19%); 1996-97 (1.115%); 1999-00 (1.853%); and 2004-05 (1.867%). In addition, the inflation factor will be -0.237% in fiscal year 2010-11.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

Proposition 8 Appeals. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

The County Assessor may also unilaterally reduce assessed values under Proposition 8 and did so in fiscal year 2009-10 and is expected to do so again in fiscal year 2010-11.

Base Year Appeals. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City’s property tax revenues.

Natural Calamities

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

Seismic. The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code. The area includes all of the greater San Francisco Bay Area and all of coastal California. The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code. Seismic Zone 4 is the highest risk zone classification under the Uniform Building Code.

Within Santa Cruz County there are several active and potentially active faults. These include the San Andreas, San Gregorio, Zayante, Ben Lomond and Butano Faults, the Monterey Bay Fault Zone, as well as numerous fault complexes and branches of these major faults.

The City lies within 15 miles of at least six major seismic faults and fault systems, placing it in an area of high seismic risk; however there is only one fault, the Ben Lomond Fault that actually passes through the city. The Ben Lomond Fault is not considered to have moved in historic time, however, and may be inactive.

If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City’s right to use and occupy all or a portion of the Leased Property, which could result in Lease Payments being subject to abatement. See “-Abatement” above. See “THE LEASED PROPERTY” for a description of the structural design of the Leased Property.

The City does not maintain earthquake insurance on the Leased Property.

Flood. There are several areas subject to flooding in the City. The San Lorenzo River runs through the downtown corridor and the majority of the downtown area is in the San Lorenzo floodplain; as a result, 18 floods, eight of which have been considered severe, have occurred over the last 10 decades. The San Lorenzo River Levee Project significantly reduced

the risk of flooding in the downtown area. However, the downtown and beach areas are still designated as floodplains.

Flooding along the coast of the City may occur with the simultaneous occurrence of large waves and storm swells during the winter. Storm centers from the southwest produce the type of storm pattern most commonly responsible for the majority of serious coastline flooding. The strong winds combined with high tides that create storm surges are also accompanied by heavy rains. When storms occur simultaneously with high tides, flood conditions including flooding at the mouth of the San Lorenzo River are exacerbated.

There are several smaller creeks in the City that are subject to periodic flooding. Flooding is a hazard on the lower reaches of Moore Creek where only shallow stream channels are present, the lower portion of Arana Gulch, north of Santa Cruz Yacht Harbor, and along portions of Branciforte and Carbonera creeks. In these areas there is minimal impact on public structures and facilities and only a few residential structures are within these flood zones.

The Leased Property is located in a FEMA A99 flood zone, which means the area is subject to inundation by a 100-year flood event, but enough progress has been made on the construction of a flood control system to consider it complete for insurance rating purposes. Prior to completion of the most recent San Lorenzo River flood control project, the Leased Property was in an A11 flood zone. The City currently maintains flood insurance on the Leased Property.

Refinancing of the 2001 Certificates. If the City decides to refinance the 2001 Certificates, it will also lease the Civic Center (see "THE LEASED PROPERTY"). The Civic Center is in a FEMA A99 flood zone. The City does not maintain earthquake insurance but does maintain flood insurance on the Civic Center.

Wildfire. There are five wildland/urban interface areas within the City, including three areas designated as mutual threat zones. Mutual threat zones are defined as areas where a wildfire would threaten property within the Santa Cruz fire protection district as well as property covered by another fire protection service.

Tsunami. The City is located on the Monterey Bay. Several active and potentially active earthquake faults are located within or near Santa Cruz. Even a moderate earth-quake occurring in or near any of the near by faults could result in local source tsunamis from submarine landsliding in Monterey Bay. Additionally, distinct source tsunamis from the Cascadia Subduction Zone to the north, or Teletsunamis from elsewhere in the Pacific Ocean are also capable of causing significant destruction in Santa Cruz.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Lease may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" above. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Lease or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Lease and the Indenture, the rights and obligations under the Bonds, the Lease and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the City in violation of their respective covenants in the Lease and the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, 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 City comply with all requirements of the Internal Revenue Code of 1986 (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bond 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 straightline 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.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render one or more opinions with respect to the validity of the Bonds, the form of which opinion is set forth in Appendix E. Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney.

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending 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 Lease, the Site Lease or the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease, the Site Lease or the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Lease.

FINANCIAL STATEMENTS

Caporicci & Larson, Certified Public Accountants (the "**Auditor**"), audited the financial statements of the City for the Fiscal Year ended June 30, 2009. The Auditor's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. See "APPENDIX B – Audited Financial Statements of the City for Fiscal Year Ended June 30, 2009."

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City.

RATING

It is anticipated that, on the Closing Date, Moody's Investors Service ("**Moody's**") will assign its municipal bond rating of "____" to the Bonds, Fitch Ratings ("**Fitch**") will assign its municipal bond rating of "____" to the Bonds, and Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**"), will assign its municipal bond rating of "____" to the Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective 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. The City and the Authority have provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 31 after the end of each fiscal year of the City (currently June 30th), commencing with the report for the 2009-10 fiscal year (the “**Annual Report**”), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in “APPENDIX C – Form of Continuing Disclosure Certificate,” attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2 12(b)(5).

The City has complied with all of its material obligations under existing continuing disclosure undertakings during the past five years.

UNDERWRITING

_____ (the “**Underwriter**”), has entered into a bond purchase agreement with the Authority under which they will purchase the Bonds at a price of \$_____ (equal to the par amount of the Bonds, plus original issue premium of \$_____, and less an Underwriter’s discount of \$_____).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, all or a portion of the fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel and Disclosure Counsel; Northcross Hill & Ach, Inc. as Financial Advisor; and Union Bank, N.A., San Francisco, California, as Trustee.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of Directors of the Authority and the City Council of the City.

CITY OF SANTA CRUZ PUBLIC
FINANCING AUTHORITY

By : _____
Executive Director

CITY OF SANTA CRUZ

By : _____
City Manager

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the CITY OF SANTA CRUZ (the “**City**”) in connection with the execution and delivery by the CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY (the “**Authority**”) of the bonds captioned above (the “**Bonds**”). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of May 1, 2010 (the “**Indenture**”), by and between the Authority and Union Bank, N.A., as trustee (the “**Trustee**”).

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of itself and the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“**Annual Report**” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“**Annual Report Date**” means the date that is no later than nine months after the end of the City’s fiscal year (currently March 31 based upon the City’s June 30 fiscal year end).

“**Dissemination Agent**” means Union Bank, N.A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

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

“**MSRB**” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“**Official Statement**” means the final official statement executed by the City and the Authority in connection with the issuance of the Bonds.

“**Participating Underwriter**” means _____, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2011 with the report for the 2009-10 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Paying Agent and the Participating Underwriters. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder..

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Trustee and the Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City, with a copy to the Trustee and the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the City from the most recently available County Assessor's Roll, showing the valuation for secured and unsecured property;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year;

(v) table showing General Fund tax revenues by source; and

(vi) information showing the balance sheet of the General Fund of the City as of the close of the most recent completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) 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 law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the Trustee and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2010

CITY OF SANTA CRUZ

By: _____

City Manager

AGREED AND ACCEPTED:
Union Bank, N.A.,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Santa Cruz Public Financing Authority

Name of Issue: City of Santa Cruz Public Financing Authority 2010 Refunding
Lease Revenue Bonds

Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the City of Santa Cruz has not provided an Annual Report with respect to the above-named Bonds as required by the Lease, dated as of May 1, 2010, by and between the City of Santa Cruz and the City of Santa Cruz Public Financing Authority. The Authority anticipates that the Annual Report will be filed by _____.

Dated: _____

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY AND COUNTY OF SANTA CRUZ

General

The County. Santa Cruz County is the second smallest county by area in California, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. It is located on the Pacific Ocean between the San Francisco Bay Area and the Monterey Peninsula. The City of Santa Cruz is approximately 74 miles south of the City of San Francisco. San Mateo County, which was originally part of Santa Cruz County, borders the county on the north. It is bordered by Santa Clara County on the east and by San Benito and Monterey counties on the south. The County's diverse topography has shaped the County's economy in terms of agricultural uses and tourism. In recent years the County has experienced growth in service industries and light manufacturing.

The City. The City, incorporated in 1866, is located on the northern part of the Monterey Bay approximately 74 miles south of San Francisco and 30 miles from San Jose. The City was first founded in 1769 by the Spanish explorer Don Gaspar de Portola, who, along with Father Junipero Serra, began land based settlement in the area. The City is the county seat for the County of Santa Cruz, and is a charter city which operates under the provisions of a voter-approved charter. The City has an area of 12 square miles and is the home to the University of California, Santa Cruz, which first opened in 1965 and has a current enrollment of over 15,000 students. UCSC has received worldwide recognition in the past few years for its high quality academic programs and sponsored research programs such as the California Institute for Quantitative Biomedical Research (QB3), the Center for Information Technology Research in the Interest of Society (CITRIS), and the Laboratory for Adaptive Optics.

City Services and Government. The City provides a broad range of services including police and fire protection, construction and maintenance of streets, parks, flood control and other infrastructure, a wharf facility, recreational and cultural activities including a performing arts center and human services programs. It also operates municipal utilities for water, wastewater, storm water, refuse collection, recycling and landfill disposal in addition to self supporting enterprise operations for parking facilities and a golf course. The water utility provides water service beyond the municipal boundaries and has a total service population of approximately 90,000. Certain infrastructure construction and community development activities are provided through a legally separate redevelopment agency. The Council sits as the agency's board and it functions, in essence, as a department of the City.

The City has operated under the council-manager form of government since its incorporation in 1866. Policy-making and legislative authority are vested in a seven member governing council consisting of the Mayor and six Council Members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council Members serve four-year staggered terms, with either three or four Council Members elected every two years. The Mayor is selected by a majority of the City Council and serves a one year term. The Mayor and Council Members are elected at large and all are subject to two term limits.

Population

The City's population at January 1, 2009, the most recent estimate, was 58,982 according to the State Department of Finance. The table below shows population estimates for the City, the County of Santa Cruz and the State of California for the last five years.

Table D-1
CITY OF SANTA CRUZ, COUNTY OF SANTA CRUZ
AND STATE OF CALIFORNIA
Population Estimates

Calendar Year	City of Santa Cruz	County of Santa Cruz	State of California
2005	56,387	259,933	36,675,346
2006	56,709	261,294	37,114,598
2007	57,423	263,499	37,559,440
2008	57,975	265,782	37,883,992
2009	58,982	268,637	38,292,687

Source: State Department of Finance estimates.

Transportation

Five major State highways connect Santa Cruz with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz mountains into Santa Clara County. Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route.

Air cargo and passenger flight services are provided at the San Jose Metropolitan Airport, 32 miles east; Monterey Airport, 43 miles south; San Francisco International Airport, 60 miles northeast; and Watsonville Municipal Airport. Watsonville Municipal Airport provides private and executive air transportation facilities.

Bus transportation is provided through the Santa Cruz Metropolitan Transit District for inter-urban and local inter-community service. Greyhound and Peerless Bus Lines provide service to other local areas and additional transcontinental service.

Commercial and passenger rail services are provided by the Southern Pacific and Amtrak lines. Southern Pacific Transportation Company provides freight service for the coastal part of the County and the Watsonville area. Freight transportation is also provided through numerous common and contract carriers.

Employment and Industry

The City, as well as the County, is closely tied to the regional economy of the nine-county San Francisco Bay Area and to Silicon Valley in particular. Fiscal Year 2006 showed signs of recovery at the national level, along with the Bay Area and Silicon Valley. Local private employers include a diverse array of manufacturing, business services, retail, hotel and food services, and biotechnology companies. In addition to the local private employers, the local economy also benefits from the University of California Santa Cruz. The University is a major employer, and has potential spin-off benefits from federal and state funded scientific research ventures including biomedical research, technology research, and adaptive optics

Visitors are attracted to the County by the area's diverse natural beauty and its numerous-recreation facilities. California's first State Park, Big Basin Redwoods, was established in Santa Cruz County in 1902. More than 10% of the County's land area is now devoted to State beaches and parks. State beaches provide facilities for swimming, surfing, diving, clamming, sport fishing, picnicking, boating, sunbathing and whale-watching. State parks offer fresh water fishing, overnight camping facilities, hiking trails and nature programs.

Other visitor attractions include the Santa Cruz Boardwalk amusement park and Roaring Camp Narrow-Gauge Railroad. Visitor accommodations are extensive and varied, ranging from modern motel/hotel rooms to rental cottages on private beaches. Convention activities are an important contributor to the County's economy.

The following table shows civilian labor force and wage and salary employment data for the Santa Cruz Metropolitan Statistical Area, which is coterminous with Santa Cruz County, for the past five calendar years.

Table D-2
SANTA CRUZ METROPOLITAN STATISTICAL AREA
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2005	2006	2007	2008	2009
Civilian Labor Force ⁽¹⁾	143,800	144,500	146,200	147,000	149,800
Employment	134,700	136,300	137,600	136,200	133,000
Unemployment	9,100	8,200	8,600	10,700	16,800
Unemployment Rate	6.3%	5.6%	5.9%	7.3%	11.2%
Wage and Salary Employment: ⁽²⁾					
Agriculture	7,800	7,400	7,800	8,600	9,700
Natural Resources, Mining, Construction	5,800	5,900	5,400	4,600	3,300
Manufacturing	6,900	6,500	6,300	5,900	5,200
Wholesale Trade	3,700	4,000	4,300	4,100	3,800
Retail Trade	13,100	13,300	13,100	12,300	11,700
Trans., Warehousing and Utilities	1,500	1,500	1,600	1,500	1,400
Information	1,600	1,400	1,200	1,100	900
Finance and Insurance	2,200	2,200	2,200	2,000	2,000
Real Estate and Rental and Leasing	1,500	1,500	1,500	1,500	1,400
Professional and Business Services	9,300	10,000	10,000	10,000	9,400
Educational and Health Services	11,900	12,100	12,400	12,500	12,700
Leisure and Hospitality	11,000	11,100	11,500	11,300	11,100
Other Services	3,700	3,800	3,900	4,000	3,900
Federal Government	500	500	500	600	500
State Government	7,500	7,800	8,200	8,300	8,100
Local Government	13,300	13,500	13,400	13,400	13,400
Total, All Industries ⁽³⁾	101,300	102,400	103,400	101,600	98,400

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Shown below are the principal employers in the City as of June 30, 2008.

Table D-3
CITY OF SANTA CRUZ
Major Employers
As of June 30, 2009

Employer Name	No. of Employees	Percentage of Total Employment
University of California at Santa Cruz	4,679	5.004%
County of Santa Cruz	2,497	2.671
City of Santa Cruz	1,108	1.185
Plantronics	518	0.554
Santa Cruz Beach-Boardwalk	347	0.371
Costco	255	0.273
Community Bridges	250	0.267
Crow's Nest	199	0.213
Santa Cruz Biotechnology Incorporated	190	0.203
United Parcel Service	155	0.166

Source: City of Santa Cruz Comprehensive Annual Financial Report.

The following table lists the largest employers within the County as of January 2010.

**Table D-4
COUNTY OF SANTA CRUZ
Major Employers
As of January 2010 (listed alphabetically)**

Employer Name	Location	Industry
Audiology Associates	Santa Cruz	Nurses-Practitioners
City Of Watsonville	Watsonville	Recycling Centers (Whls)
Cocconut Grove	Santa Cruz	Conference Center
Dominican Hospital	Santa Cruz	Hospitals
Dutra Farms	Watsonville	Grocers-Wholesale
Hook Up	Boulder creek	Television Cable
Monterey Mushrooms	Watsonville	Mushrooms
North County Mental Health	Santa Cruz	County Government-Public Health Programs
Plantronics Inc	Santa Cruz	Telephone & Telegraph Apparatus (Mfrs)
Santa Cruz Beach Boardwalk	Santa Cruz	Amusement & Theme Parks
Santa Cruz County Counsel	Santa Cruz	Government - County
Santa Cruz Governmental Ctr	Santa Cruz	Government Offices-County
Santa Cruz Health Ctr	Santa Cruz	Clinics
Santa Cruz Medical Foundation	Santa Cruz	Physicians & Surgeons
Santa Cruz Metro	Santa Cruz	Bus Line
Seagate Technology	Scotts Valley	Computer Storage Devices (Manufacturers)
Sesnon House	Aptos	Caterers
Sierra Club-Santa Cruz County	Santa Cruz	Environmental Conservation/Ecologcl Org
Source Naturals	Scotts Valley	Vitamin Products-Manufacturers
Threshold Enterprises Ltd	Scotts Valley	Health Food Products-Wholesale
University Of Ca-Santa Cruz	Santa Cruz	Schools-Universities & Colleges Academic
US Health & Human Svc Dept	Santa Cruz	Federal Government-Public Hlth Programs
Ventui International Ltd	Santa Cruz	Optical Instruments & Lenses (Mfrs)
Watsonville Community Hospital	Watsonville	Hospitals
West Marine Inc	Watsonville	Boat Equipment & Supplies
Wine & Roses Limousine Svc	Santa Cruz	Limousine Service

Source: State of California Employment Development Department.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County of Santa Cruz, the State and the United States for the past five years for which data is available.

**Table D-5
COUNTY OF SANTA CRUZ
Effective Buying Income
As of January 1, 2004 through 2008**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2004	Santa Cruz County	\$ 5,860,505	\$49,653
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	Santa Cruz County	\$ 5,801,768	\$50,046
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	Santa Cruz County	\$ 6,185,743	\$50,564
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Santa Cruz County	\$ 6,442,143	\$52,533
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Santa Cruz County	\$ 6,525,443	\$52,833
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for 2004; Claritas Demographics for 2005 and after.

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City.

Table D-6
CITY OF SANTA CRUZ
Building Permit Valuation - Calendar Years 2004 through 2008
(Valuation in Thousands of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Permit Valuation</u>					
New Single-family	\$12,731.6	\$16,150.6	\$25,368.9	\$19,597.1	\$13,065.2
New Multi-family	2,478.2	2,723.0	1,553.4	50,387.9	4,258.7
Res. Alterations/Additions	<u>9,008.1</u>	<u>9,511.8</u>	<u>12,021.4</u>	<u>14,384.3</u>	<u>9,803.4</u>
Total Residential	24,217.8	28,385.4	38,943.6	84,369.3	27,127.3
New Commercial	650.0	2,407.0	13,941.7	16,318.9	9,200.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	660.8	2,125.3	2,840.1	4,555.4	2,401.8
Com. Alterations/Additions	<u>8,347.6</u>	<u>4,692.3</u>	<u>9,920.0</u>	<u>6,634.4</u>	<u>24,492.7</u>
Total Nonresidential	9,658.4	9,224.6	26,701.8	27,508.7	36,094.5
 <u>New Dwelling Units</u>					
Single Family	95	116	99	59	47
Multiple Family	<u>53</u>	<u>30</u>	<u>21</u>	<u>287</u>	<u>30</u>
TOTAL	148	146	120	346	77

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (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. One fully-registered Bond certificate will be issued for the Bonds, 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 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in

turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on these Internet sites is not incorporated in this Official Statement by reference.*

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("**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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds 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 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds 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 nor its nominee, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond 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
650 California Street, 18th Floor
San Francisco, California 94108
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.

LEASE AGREEMENT

Dated as of May 1, 2010

between the

CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY,
as lessor

and the

CITY OF SANTA CRUZ,
as lessee

Relating to

\$ _____
City of Santa Cruz Public Financing Authority
2010 Refunding Lease Revenue Bonds

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LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease"), dated for convenience as of May 1, 2010, is between the CITY OF SANTA CRUZ PUBLIC 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 SANTA CRUZ, a charter city and municipal corporation duly organized and existing under the Constitution and laws of the State of California, as lessee (the "City").

B A C K G R O U N D :

1. The City is proceeding to refinance its outstanding 1998 Parking and Refunding Certificates of Participation originally executed and delivered in the aggregate principal amount of \$10,035,000 (the "1998 Certificates").

2. To that end, the City has leased the real property which was previously leased in connection with the 1998 Certificates, consisting generally of the land and improvements which constitute a public golf course and public parking facilities, as more particularly described in Appendix A attached hereto and by this reference incorporated herein (collectively, the "Leased Property"), to the Authority under a Site Lease dated as of May 1, 2010, which has been recorded concurrently herewith (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for the prepayment of the 1998 Certificates.

3. The Authority has authorized the issuance of its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of May 1, 2010 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

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

5. The lease payments made by the City under this Lease have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of May 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

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

A G R E E M E N T :

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

ARTICLE I

DEFINITIONS; RULES OF INTERPRETATION

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

SECTION 1.2. *Interpretation.*

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

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

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

ARTICLE II

COVENANTS, REPRESENTATIONS AND WARRANTIES

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

- (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 laws of the State of California to enter into the Site Lease and this Lease and to carry out and consummate all transactions contemplated hereby, and by proper action the City has duly authorized the execution and delivery of the Site Lease and this Lease.

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

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

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

- (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, the Site Lease, the Assignment Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.
- (b) Due Execution. The representatives of the Authority executing this Lease, the Site Lease, the Assignment Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.
- (c) Valid, Binding and Enforceable Obligations. This Lease, the Site Lease, the Assignment Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of this Lease, the Site Lease, the Assignment Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the Site Lease, the

Assignment Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

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

ARTICLE III

DEPOSIT AND APPLICATION OF FUNDS; SUBSTITUTION AND RELEASE OF PROPERTY

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

SECTION 3.2. *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 Santa Cruz 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 be essential to the proper, efficient and economic operation of the City and to serve an essential 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, 2038.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

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

SECTION 3.3. *Release of Property.* The City has the option at any time and from time to time to release any portion of the Leased Property from this Lease (the "Released Property") provided that the City has satisfied all of the following requirements which are hereby declared to be conditions precedent to such release:

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

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

ARTICLE IV

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

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

SECTION 4.2. *Term.* The Term of this Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 13.01 thereof, but under any circumstances not later than May 1, 2038. The provisions of this Section are subject to the provisions of Section 6.2 relating to the taking in eminent domain of the Leased Property in whole or in part.

SECTION 4.3. *Lease Payments.*

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

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

corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed under Section 4.01 of the Indenture.

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

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

(e) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, under the Assignment Agreement, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at its Office, all payments payable by the City under this Section and all amounts payable by the City under Article IX.

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

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

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

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

SECTION 4.6. *Quiet Enjoyment.* Throughout the Term of this Lease, the Authority shall provide the City with quiet use and enjoyment of the Leased Property and the City will peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Authority, except as expressly set forth in this Lease. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority has the right to inspect the Leased Property as provided in Section 7.2.

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

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

SECTION 5.1. *Maintenance, Utilities, Taxes and Assessments.* Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property. The City waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the City under the terms of this Lease.

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

The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

SECTION 5.2. *Modification of Leased Property.* The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this Section, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this Section; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against

the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

SECTION 5.3. *Liability and Property Damage Insurance.* The City shall maintain or cause to be maintained throughout the Term of this Lease, 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 must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

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

SECTION 5.5. *Rental Interruption Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by Section 5.4, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such

insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

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

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

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

SECTION 5.8. *Installation of City's Personal Property.* The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee has any interest, and may be modified or removed by the City at any time, provided that the City must repair all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease prevents the City from purchasing or leasing items to be installed under this Section under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, so long as no such lien or security interest attaches to any part of the Leased Property.

SECTION 5.9. *Liens.* The City may not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than as herein contemplated and except for such encumbrances as the City certifies in writing to the Trustee do not materially and

adversely affect the leasehold estate of the City in the Leased Property hereunder. If any such mortgage, pledge, lien, charge, encumbrance or claim does materially and adversely affect the leasehold estate of the City in the Leased Property hereunder, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible; provided that the City is not required to do so prior to the time when such mortgage, pledge, lien, charge, encumbrance or claim actually causes such material adverse effect. The City will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

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

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

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

SECTION 6.2. *Termination or Abatement Due to Eminent Domain.* If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease thereupon ceases as of the day possession is taken. 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 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; *provided, however,* that the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

SECTION 6.3. *Abatement Due to Damage or Destruction.* The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial

interference with the use and occupancy by the City of the Leased Property or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease continues in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

ARTICLE VII

OTHER COVENANTS OF THE CITY

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

SECTION 7.2. *Access to the Leased Property.* The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, have the right at all reasonable times to enter upon and to examine and inspect the Leased Property or any part thereof. The City further agrees that the Authority, any 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,
- (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property,
- (d) any intentional misconduct or negligence of any sublessee of the City with respect to the Leased Property,
- (e) the acquisition, construction, improvement and equipping of the Leased Property, or the authorization of payment of the costs thereof, or
- (f) the acceptance and performance of the duties of the Trustee under the Indenture and under this Lease.

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

SECTION 7.4. *Assignment and Subleasing by the City.* The City may sublease the Leased Property, or any portion thereof, subject to all of the following conditions:

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

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

- (i) to add to the covenants and agreements of the City contained in this Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;

- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Lease in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property under Sections 3.3 or 3.4;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee an appraisal showing that the appraised value of the Leased Property is at least equal to the aggregate principal amount of the Outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds; or
- (vi) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

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

SECTION 7.6. *Tax Covenants.*

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

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

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

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

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

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

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

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to

the end of the Term of this Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority. The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place the Leased Property in storage or other suitable place in the County of Santa Cruz for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of the Leased Property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of this Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph, and the City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.

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

any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease. The City covenants and agrees that no surrender of the Leased Property, or of the remainder of the Term hereof or any termination of this Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

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

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

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

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

SECTION 8.6. *Application of Proceeds.* All net proceeds received from the 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, must be paid to and applied by the Trustee in accordance with Section 7.03 of the Indenture.

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

ARTICLE IX

PREPAYMENT OF LEASE PAYMENTS

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

- (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Appendix B, or
- (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, (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, and all security provided by this Lease for said Lease Payments, will thereupon cease and terminate, excepting only the obligation of the City to make, or cause to be made all of said Lease Payments from such security deposit, and (c) under Section 4.7, title to the Leased Property will vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of this Lease.

SECTION 9.2. *Optional Prepayment.* The City has the option to prepay the principal components of the Lease Payments in whole, or in part in any integral multiple of \$5,000, from any source of legally available funds, on any date on or after May 1, 20__, at a prepayment price equal to the aggregate principal components of the Lease Payments to be prepaid, together with the interest component of the Lease Payment required to be paid on such Interest Payment Date, and together with a prepayment premium equal to the premium (if any) required to be paid on the resulting redemption of Bonds under Section 4.01(a) of the Indenture. Such prepayment price shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds under Section 4.01(a) of the Indenture. The City shall give written notice to the Trustee of its intention to prepay the Lease Payments under this Section at least 45 days prior to the prepayment date, or such shorter period of time as may be acceptable to the Trustee in its sole discretion, such notice being solely for the convenience of the Trustee.

SECTION 9.3. *Credit for Amounts on Deposit.* If the principal components of the Lease Payments are prepaid in full under this Article IX, such that the Indenture is discharged by its terms as a result of such prepayment, at the written election of the City filed with the Trustee any or all amounts then on deposit in the Bond Fund (and the accounts therein) will be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

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

If to the Authority or the City: City of Santa Cruz
809 Center Street, Room 101
Santa Cruz, California 95060
Attention: Finance Director
Fax: (831) 420-5051

If to the Trustee: Union Bank of California, N.A.
Corporate Trust Dept.
350 California Street, 11th Floor
San Francisco, California 94111
Fax: (415) 273-2492

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

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

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

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

SECTION 10.6. *Further Assurances and Corrective Instruments.* The Authority and the City shall, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

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

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

SECTION 10.9. *Authority and City Representatives.* Whenever under the provisions of this Lease the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given for the Authority and for the City by an Authorized Representative thereof, and any party hereto may conclusively rely upon any such approval or request.

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

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

**CITY OF SANTA CRUZ PUBLIC FINANCING
AUTHORITY, *as lessor***

By _____
Executive Director

Attest:

Secretary

CITY OF SANTA CRUZ, *as lessee*

By _____
City Manager

Attest:

City Clerk

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Santa Cruz, County of Santa Cruz, which is more particularly described as follows:

APPENDIX B

SCHEDULE OF LEASE PAYMENTS

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment</u>
--------------------------------	--------------------------------	-------------------------------	------------------------------------

* Lease Payment Dates are the 5th Business Day immediately preceding each date listed in the schedule

TO BE RECORDED AND WHEN RECORDED
RETURN TO:

Jones Hall
A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: Charles F. Adams

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

SITE LEASE

This SITE LEASE (this "Site Lease"), dated for convenience as of May 1, 2010, is between the CITY OF SANTA CRUZ, 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 SANTA CRUZ PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California, as lessee (the "Authority").

B A C K G R O U N D :

1. The City is proceeding to refinance its outstanding 1998 Parking and Refunding Certificates of Participation originally executed and delivered in the aggregate principal amount of \$10,035,000 (the "1998 Certificates").

2. To that end, the City has proposed to lease the real property which was previously leased in connection with the 1998 Certificates, consisting generally of the land and improvements which constitute a public golf course and public parking facilities, as more particularly described in Appendix A attached hereto and by this reference incorporated herein (collectively, the "Leased Property"), to the Authority under this Site Lease, in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for the prepayment of the 1998 Certificates.

3. The Authority has authorized the issuance of its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of May 1, 2010 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with this Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of May 1, 2010 (the "Lease"), which has been recorded concurrently herewith, under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of May 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

A G R E E M E N T :

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

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

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

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

As provided in the Indenture, a portion of the proceeds of the Bonds will be applied to make the Site Lease Payment by depositing the full amount thereof with the 1998 Trustee to be held, invested and administered in accordance with the Escrow Agreement for the purpose of discharging the City's obligations with respect to the 1998 Certificates.

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

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

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

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

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

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

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

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

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

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

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

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

If to the Authority or the City: City of Santa Cruz
809 Center Street, Room 101
Santa Cruz, California 95060
Attention: Finance Director
Fax: (831) 420-5051

If to the Trustee: Union Bank of California, N.A.
Corporate Trust Dept.
350 California Street, 11th Floor
San Francisco, California 94111
Fax: (415) 273-2492

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 SANTA CRUZ, as lessor

By _____
City Manager

Attest:

City Clerk

**CITY OF SANTA CRUZ PUBLIC FINANCING
AUTHORITY, as lessee**

By _____
Executive Director

Attest:

Secretary

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

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

INDENTURE OF TRUST

Dated as of May 1, 2010

between

UNION BANK OF CALIFORNIA, N.A.,
as Trustee

and the

CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY

Authorizing the Issuance of

\$ _____
City of Santa Cruz Public Financing Authority
2010 Refunding Lease Revenue Bonds

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INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated for convenience as of May 1, 2010, is between the CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and UNION BANK OF CALIFORNIA, N.A., a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in Los Angeles, California, being qualified to accept and administer the trusts hereby created (the "Trustee").

B A C K G R O U N D :

1. The City is proceeding to refinance its outstanding 1998 Parking and Refunding Certificates of Participation originally executed and delivered in the aggregate principal amount of \$10,035,000 (the "1998 Certificates").

2. To that end, the City has leased the real property which was previously leased in connection with the 1998 Certificates, consisting generally of the land and improvements which constitute a public golf course and public parking facilities (collectively, the "Leased Property"), to the Authority under a Site Lease dated as of May 1, 2010 (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for the prepayment of the 1998 Certificates.

3. The Authority has authorized the issuance of its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "Bonds") under this Indenture for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has leased the Leased Property back to the City under a Lease Agreement dated as of May 1, 2010 (the "Lease"), under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to the Trustee for the security of the Bonds under an Assignment Agreement dated as of May 1, 2010, between the Authority as assignor and the Trustee as assignee.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

7. The Authority has found and 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 in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to pay the Site Lease Payment to the City and thereby provide funds to prepay the 1998 Certificates. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds."

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>
--	-----------------------------------	--------------------------------	--	-----------------------------------	--------------------------------

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

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

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

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

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

SECTION 2.03. *Transfer and Exchange of Bonds.*

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

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

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

SECTION 2.04. *Book-Entry System.*

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

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

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Authority or the Trustee any obligation

whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the Authority may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

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

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

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

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

SECTION 2.06. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth

in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

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

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

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

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

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

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

SECTION 3.02. *Application of Proceeds of Sale of Bonds.* Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall deposit the proceeds thereof into a temporary account, which shall be disbursed in full on the Closing Date (whereupon said temporary account shall be closed) as follows:

- (a) The Trustee shall deposit the amount of \$_____ into the Costs of Issuance Fund.
- (b) The Trustee shall deposit the amount of \$_____, constituting the full amount of the Reserve Requirement, in the Reserve Account.
- (c) The Trustee shall transfer the amount of \$_____, constituting the remainder of such proceeds and representing the full amount of the Site Lease Payment, to the 1998 Trustee for application pursuant to the Escrow Agreement.

SECTION 3.03. *Establishment and Application of Costs of Issuance Fund.* The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under Section 3.02(a). The Trustee shall disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon. On August 1, 2010, 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.

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. *Terms of Redemption.*

(a) Optional Redemption. The Bonds maturing on or before May 1, 20__, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after May 1, 20__, are subject to redemption in whole, or in part at the election of the Authority among maturities on such basis as shall be designated by the Authority and by lot within a maturity, at the option of the Authority, on any date on or after May 1, 20__, from any available source of funds, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium.

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

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

Sinking Fund
Redemption Date
(May 1)

Principal Amount
To Be Redeemed

SECTION 4.02. *Selection of Bonds for Redemption.* Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee shall select the Bonds of that maturity to be redeemed by lot in any manner 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 4.03. *Notice of Redemption; Rescission.* 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 Municipal Securities Rulemaking Board as provided in the Continuing Disclosure Certificate. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

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

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

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

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

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

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

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

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

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

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

(a) Deposit to Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

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

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

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

SECTION 5.05. *Application of Reserve Account.* All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), to the extent that moneys deposited in the Interest Account or the Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), the Trustee shall apply such amounts first, to the payment of interest and second, to the payment of principal (including principal payable upon mandatory sinking fund redemption).

If at any time the amounts on deposit in the Reserve Account are sufficient to enable the Authority to pay or redeem all of the Outstanding Bonds and the interest thereon, the Trustee shall apply the amounts in the Reserve Account for that purpose at the Written Request of the Authority. On the date on which all Bonds are retired hereunder or provision is made therefor under Article X, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments.

If the amount held in the Reserve Account on May 1 or November 1 in any year is excess of the Reserve Requirement, the Trustee shall transfer such amount to the Bond Fund to be applied in accordance with Section 5.02.

SECTION 5.06. *Application of Redemption Fund.* The Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the

Revenues received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under Section 4.01, other than the principal of the Term Bonds to be redeemed under Section 4.01(b); *provided, however*, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee shall be entitled to conclusively rely on any Written Request of the Authority received under this Section 5.06, and shall be fully protected in relying thereon.

SECTION 5.07. *Insurance and Condemnation Fund.*

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

(b) Application of Insurance Proceeds. 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 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 promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds under Section 4.01(a). 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 redeem 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 transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of a Written Request of the City which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund and has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Any balance of the proceeds remaining after such work has been completed as certified by the City under a Written Certificate to the Trustee shall be paid to the City. The Trustee shall be entitled to conclusively rely on any Written Request or Written Certificate received under this subsection (b) of this Section 5.07 and in each case, shall be fully protected in relying thereon.

(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 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 transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds under Section 4.01(a).
- (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 5.07, the City may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee. The Trustee shall have no duty to review or examine such report. Any such determination by the City is final.

SECTION 5.08. *Investments.* All moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority in a Written Request of the Authority filed with the Trustee at least 2 Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments which constitute money market funds. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, *provided, however,* that earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section 5.09.

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 5.09. *Valuation and Disposition of Investments.*

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

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

(c) Except for the Reserve Account and any other 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 5.09, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is

acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

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

ARTICLE VI

COVENANTS OF THE AUTHORITY

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

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

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

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

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

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

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

SECTION 6.07. *Tax Covenants.*

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

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

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

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

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

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

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

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

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

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

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

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

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be

sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

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

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

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

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, this Indenture, the Lease or other applicable law with respect to the Bonds, except in the manner herein

provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.06. *Absolute Obligation of 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.* Union Bank of California, N.A. is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article VIII, so long as any Bonds are Outstanding.

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

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

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any

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

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

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

SECTION 8.04. *Liability of Trustee.*

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

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

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

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

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or a corporate trust officer shall have received written notice thereof at its Office from the City, the Authority or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions,

covenants or agreements herein, under the Lease or the Bonds or of any of the documents executed in connection with the Bonds, or as to the existence of a default or an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City or the Authority of the terms, conditions, covenants or agreements set forth in the Lease, other than the covenants of the City to make Lease Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

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

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

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

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

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

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or this Indenture for the existence, furnishing or use of the Leased Property.

(l) The Trustee has no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

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

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

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

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

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

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any interest on advances), charges, legal (including outside counsel and the allocated costs of internal attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or

under the Assignment Agreement or the Lease. As security for the performance of the obligations of the Authority under this Section 8.07 and the obligation of the Authority to make Additional Rental Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 8.07 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture and the Lease.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

SECTION 9.01. *Amendments Permitted.*

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

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

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;
- (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in

regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

- (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; 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 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture hereunder, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture 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 9.01.

SECTION 9.02. *Effect of Supplemental Indenture*. Upon the execution of any Supplemental Indenture under this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. *Endorsement of Bonds; Preparation of New Bonds*. Bonds delivered after the execution of any Supplemental Indenture under this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment contained in such

Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

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

ARTICLE X

DEFEASANCE

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

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

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

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such

Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

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

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

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

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

SECTION 10.04. *Unclaimed Funds.* Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of

the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however*, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. *Liability of Authority Limited to Revenues.* Notwithstanding anything in this Indenture or in the Bonds contained, the Authority is not required to advance any moneys derived from any source other than the Revenues, 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 Authority or the City: City of Santa Cruz
809 Center Street, Room 101
Santa Cruz, California 95060
Attention: Finance Director
Fax: (831) 420-5051

If to the Trustee: Union Bank of California, N.A.
Corporate Trust Dept.
350 California Street, 11th Floor
San Francisco, California 94111
Fax: (415) 273-2492

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

Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08.

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

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

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

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

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

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

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

SECTION 11.12. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Indenture either the Authority, the City or the Trustee is

named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority, the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.13. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

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

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

IN WITNESS WHEREOF, the CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY has caused this Indenture to be signed in its name by its Executive Director and attested to by its Secretary, and UNION BANK OF CALIFORNIA, N.A., in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**CITY OF SANTA CRUZ PUBLIC FINANCING
AUTHORITY**

By _____
Executive Director

Attest:

Secretary

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

By _____
Authorized Officer

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 or which are otherwise identified as Additional Rental Payments under the Lease.

“Assignment Agreement” means the Assignment Agreement dated as of May 1, 2010, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended.

“Authority” means the City of Santa Cruz Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California.

“Authorized Representative” means: (a) with respect to the Authority, its Executive Director, Chief Financial Officer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Executive Director and filed with the City and the Trustee; and (b) with respect to the City, its City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its City Manager and filed with the Authority and 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, 2011.

“Bonds” means the \$_____ aggregate principal amount of City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue 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 Santa Cruz, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California.

“Closing Date” means May __, 2010, 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 1998 Certificates, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and their respective counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding of the 1998 Certificates.

“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.

“Escrow Agreement” means the Escrow Deposit and Trust Agreement dated as of the Closing Date, between the City and The Bank of New York Mellon Trust Company, N.A., as trustee for the 1998 Certificates, relating to the payment and prepayment of the 1998 Certificates and the discharge of the City’s obligations relating thereto.

“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 5.07.

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

“Interest Payment Date” means each May 1 and November 1, commencing November 1, 2010, so long as any Bonds remain unpaid.

“Lease” means the Lease Agreement dated as of May 1, 2010, between the Authority as lessor and the City as lessee of the Leased Property, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

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

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

“Leased Property” means the real property described in Appendix A to the Lease, together with all improvements and facilities at any time situated thereon.

“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.

“1998 Certificates” means the outstanding 1998 Parking and Refunding Certificates of Participation originally executed and delivered in the aggregate principal amount of \$10,035,000.

“1998 Trustee” means The Bank of New York Mellon Trust Company, N.A., its successors and assigns, as trustee for the 1998 Certificates.

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

“Office” means the corporate trust office of the Trustee in San Francisco, California, or 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 _____, as original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

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

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

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

“Permitted Investments” means any of the following:

- (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.
- (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.
- (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 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

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

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

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

“Reserve Requirement” means, as of any date of calculation, the lesser of (a) the amount of \$ _____, or (b) the maximum amount of principal of and interest on the Bonds coming due and payable on the Bonds in the current or any future Bond Year.

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

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

“Site Lease” means the Site Lease dated as of May 1, 2010, between the City as lessor and the Authority as lessee, as amended from time to time in accordance with its terms.

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

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

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

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

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

“Term Bonds” means the Bonds maturing on May 1 in each of the years _____.

“Trustee” means Union Bank of California, N.A., a national banking association organized and existing under the laws of United States of America, or its successor or successors, as Trustee hereunder as provided in Article VIII.

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

APPENDIX B

BOND FORM

NO. R-_____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

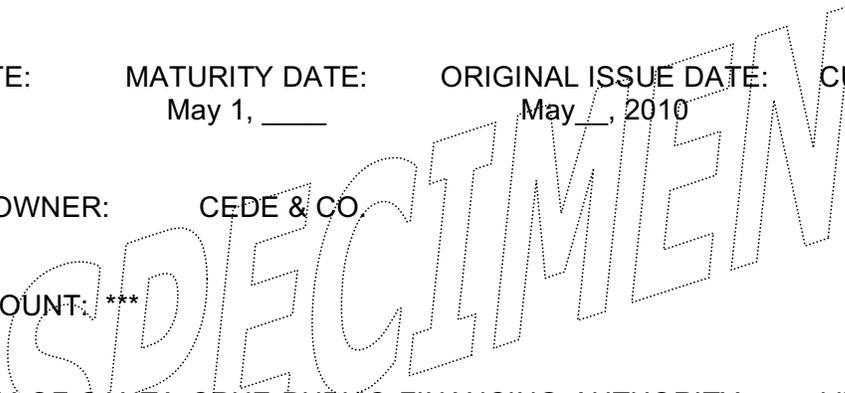
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY

2010 REFUNDING LEASE REVENUE BOND

INTEREST RATE: _____% MATURITY DATE: May 1, _____ ORIGINAL ISSUE DATE: May __, 2010 CUSIP: _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: *** _____ ***



The CITY OF SANTA CRUZ PUBLIC 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 (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before July 15, 2010, 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 November 1 in each year, commencing November 1, 2010 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of Union Bank of California, N.A., in San Francisco, 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 Santa Cruz (the "City"), the County of Santa Cruz, 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 Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue 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 or redemption provisions) 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, 2010, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on April __, 2010, 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 and premium, if any, hereon are special obligations of the Authority, payable from the Revenues, and secured by a charge and lien on the Revenues as defined in the Indenture, consisting principally of lease payments made by the City under a Lease Agreement dated as of May 1, 2010, between the Authority as lessor and the City as lessee (the "Lease"). As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

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

The Bonds maturing on or before May 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after May 1, 20__, are subject to redemption in whole, or in part at the request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after May 1, 20__, from

any available source of funds, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed) as set forth in the following table, plus accrued interest to the date of redemption.

Redemption Dates

Redemption Price

The Bonds maturing on May 1 in each of the years 20__ and 20__ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on May 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Bonds have been redeemed under the redemption provision described in the preceding paragraph, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Sinking Fund Redemption Date (May 1)	Principal Amount To Be Redeemed
--	------------------------------------

The Bonds are subject to redemption as a whole, or in part by lot, on any date, to the extent of any net proceeds of hazard or title insurance with respect to the property which has been leased under the Lease (the "Leased Property") or any portion thereof which are not used to repair or replace the Leased Property pursuant to the Lease, or to the extent of any net proceeds arising from the disposition of the Leased Property or any portion thereof in eminent domain proceedings which the City elects to be used for such purpose pursuant to the Lease, at a redemption price equal to 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 Ordinance and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Ordinance or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

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

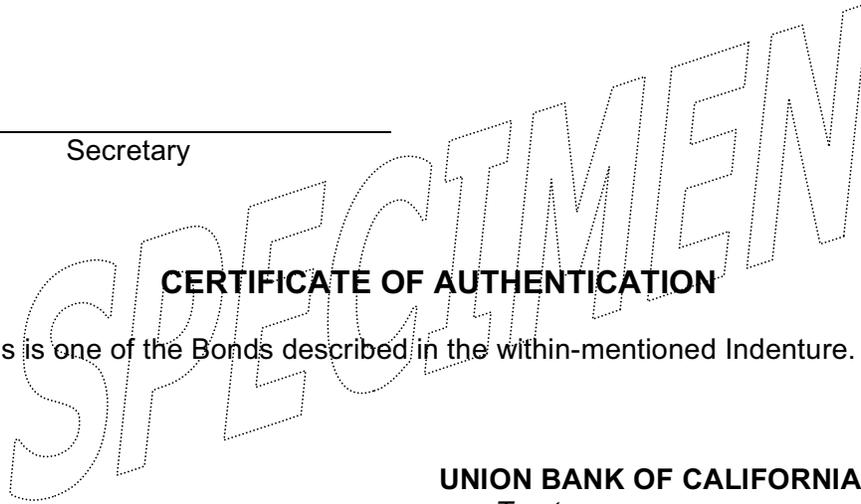
IN WITNESS WHEREOF, the City of Santa Cruz Public Financing Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chairman and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY

By _____
Chairman

Attest:

Secretary



CERTIFICATE OF AUTHENTICATION

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

Dated: _____

UNION BANK OF CALIFORNIA, N.A.,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

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

Dated: _____

Signature Guaranteed:

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

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

ESCROW DEPOSIT AND TRUST AGREEMENT

This ESCROW DEPOSIT AND TRUST AGREEMENT (this "Agreement"), dated May __, 2010, is between the CITY OF SANTA CRUZ, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, acting as escrow agent hereunder and as trustee for the 1998 Certificates described below (the "Escrow Agent").

BACKGROUND:

1. The City of Santa Cruz (the "City") and the Santa Cruz Public Improvement Financing Corporation (the "Corporation") have previously entered into a Lease Agreement dated as of November 1, 1998 (the "1998 Lease Agreement"), under which the City is obligated to pay semiannual lease payments as rental for certain property leased thereunder (the "1998 Lease Payments").

2. The 1998 Lease Payments have been assigned to the Escrow Bank, in its capacity as trustee (the "1998 Trustee") for the \$10,035,000 aggregate principal amount of 1998 Parking and Refunding Certificates of Participation (the "1998 Certificates"), which have been executed and delivered under a Trust Agreement dated as of November 1, 1998 (the "1998 Trust Agreement"), among the City, the Corporation and the 1998 Trustee.

3. Under Section 9.2 of the 1998 Lease Agreement, the City currently has the right to prepay the 1998 Lease Payments on any business day, and under Section 9.1 of the 1998 Lease Agreement the City has the right to secure the payment and prepayment of the 1998 Lease Payments with an irrevocable deposit of funds which has the effect of discharging the City's obligations under the 1998 Lease Agreement.

4. In order to provide funds to pay and prepay the 1998 Lease Payments and thereby discharge the City's obligations under the 1998 Lease Agreement, and in order to provide funds to pay and prepay the 1998 Certificates in full, the City of Santa Cruz Public Financing Authority (the "Authority") has authorized the issuance of its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "2010 Bonds") under an Indenture of Trust dated as of May 1, 2010 (the "2010 Bond Indenture"), between the City and Union Bank, N.A., as trustee (the "2010 Bond Trustee").

5. The City wishes to appoint the Escrow Agent for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and administered for the purpose of providing for the payment and prepayment of the 1998 Lease Payments and the 1998 Certificates in full.

A G R E E M E N T :

In consideration of the premises and the material covenants contained herein, the City and the Escrow Agent hereby agree as follows:

SECTION 1. *Appointment of Escrow Agent; Establishment of Escrow Fund.* The City hereby appoints the Escrow Agent to act as escrow agent for purposes of administering the funds required to pay and prepay the 1998 Lease Payments in full in accordance with the 1998 Lease Agreement and thereby pay and prepay the 1998 Certificates in full in accordance with the 1998 Trust Agreement.

The Escrow Agent is hereby directed to establish an escrow fund (the "Escrow Fund") to be held by the Escrow Agent in trust as an irrevocable escrow securing the payment and prepayment of the 1998 Lease Payments in accordance with the 1998 Lease Agreement and the corresponding payment and prepayment of the 1998 Certificates in accordance with the 1998 Trust Agreement. If at any time the Escrow Agent receives actual knowledge that the cash and securities in the Escrow Fund will not be sufficient to make any payment required by Section 4, the Escrow Agent shall notify the City of such fact and the City shall immediately cure such deficiency from any source of legally available funds. The Escrow Agent has no liability for any such insufficiency.

SECTION 2. *Deposit of Amounts in Escrow Fund.* On May __, 2010 (the "Closing Date"), the City shall cause to be transferred to the Escrow Agent for deposit into the Escrow Fund the amount of \$_____ in immediately available funds, to be derived from the following sources in the following amounts:

- (a) from the proceeds of the 2010 Bonds in the amount of \$_____;
and
- (b) from amounts held by the Escrow Agent, in its capacity as 1998 Trustee, in the Reserve Fund established under Section 4.02 of the 1998 Trust Agreement (the "1998 Reserve Fund"), in the amount of \$_____.

SECTION 3. *Non-Investment of Amounts in Escrow Fund.* The Escrow Agent shall hold all amounts on deposit in the Escrow Fund in cash, uninvested.

SECTION 4. *Application of Amounts in Escrow Fund.* On June __, 2010, the Escrow Agent shall apply the amounts on deposit in the Escrow Fund to pay and prepay the 1998 Lease Payments in accordance with the following schedule:

<u>Payment Date</u>	<u>Interest Payment</u>	<u>Prepaid Principal</u>	<u>Prepayment Premium</u>	<u>Total Payment</u>
	\$	\$	\$	\$

Following the payment and prepayment of the 1998 Lease Payments in full on June __, 2010, the Escrow Agent shall transfer any amounts remaining on deposit in the Escrow Fund to the 2010 Bond Trustee to be applied to pay interest next coming due and payable on the 2010 Bonds.

SECTION 5. *Irrevocable Election to Prepay 1998 Lease Payments and 1998 Certificates.* The City hereby irrevocably elects to prepay all of the 1998 Lease

Payments in on June __, 2010, in accordance with the provisions of Section 9.2 of the 1998 Lease Agreement. As provided in the 1998 Trust Agreement, such amounts shall be applied to prepay the 1998 Certificates in accordance with Section 3.01 of the 1998 Trust Agreement. Notice of prepayment of the 1998 Certificates shall be given by the Escrow Agent, in its capacity as 1998 Trustee, in accordance with Section 3.03 of the 1998 Trust Agreement, at the expense of the City. Such notice shall be in substantially the form attached hereto as Exhibit A.

SECTION 6. *Compensation to Escrow Agent.* The City shall pay the Escrow Agent full compensation for its services under this Agreement, including out-of-pocket costs such as publication costs, prepayment expenses, legal fees and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase, substitution or withdrawal of any securities after the date hereof. Under no circumstances shall amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes. The Escrow Agent has no lien upon or right of set off against the cash and securities at any time on deposit in the Escrow Fund.

The City shall indemnify, defend and hold harmless the Escrow Agent and its officers, directors, employees, representatives and agents, from and against and reimburse the Escrow Agent 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 Escrow Agent directly or indirectly relating to, or arising from, claims against the Escrow Agent by reason of its participation in the transactions contemplated hereby, except to the extent caused by the Escrow Agent's gross negligence or willful misconduct. The provisions of this Section 6 shall survive the termination of this Agreement or the earlier resignation or removal of the Escrow Agent.

SECTION 7. *Immunities and Liability of Escrow Agent.* The Escrow Agent undertakes to perform only such duties as are expressly set forth in this Agreement and no implied duties, covenants or obligations shall be read into this Agreement against the Escrow Agent. The Escrow Agent shall not have any liability hereunder except to the extent of its gross negligence or willful misconduct. In no event shall the Escrow Agent be liable for any special, indirect or consequential damages. The Escrow Agent shall not be liable for any loss from any investment made by it in accordance with the terms of this Agreement. The Escrow Agent may consult with legal counsel of its own choice and the Escrow Agent 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 Escrow Agent shall not be liable for the recitals or representations contained in this Agreement and shall not be responsible for the validity of this Agreement, the sufficiency of the Escrow Fund or the moneys and securities to pay the principal, interest and prepayment premium with respect to the 1998 Certificates.

Whenever in the administration of this Agreement the Escrow Agent 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 shall be full protection for any action taken or not taken by the Escrow Agent in good faith reliance thereon.

The Escrow Agent 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 this Agreement and shall be protected in acting, or refraining from acting, upon any notice, instruction, request, certificate, document, opinion or other writing furnished to the Escrow Agent in connection with this Agreement and believed by the Escrow Agent to be signed by the proper party, and it need not investigate any fact or matter stated therein.

None of the provisions of this Agreement shall require the Escrow Agent 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 Escrow Agent 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 Escrow Agent 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 Escrow Agent 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 Escrow Agent may at any time resign by giving 30 days written notice of resignation to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning Escrow Agent from its obligations hereunder by written instrument, a copy of which instrument shall be delivered to each of the City, the resigning Escrow Agent 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 Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor.

Any bank, corporation or association into which the Escrow Agent 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 Escrow Agent shall be a party, or any bank, corporation or association succeeding to all or substantially all of the corporate trust business of the Escrow Agent shall be the successor of the Escrow Agent 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 Escrow Agent agrees to accept and act upon instructions or directions pursuant to this Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Agent shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Escrow Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Agent in its discretion elects to act upon such instructions, the Escrow

Agent's understanding of such instructions shall be deemed controlling. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

SECTION 9. *Termination of Agreement.* Upon payment and prepayment in full of the 1998 Lease Payments and the payment and prepayment in full of the 1998 Certificates, and upon payment of all fees, expenses and charges of the Escrow Agent as described above, this Agreement shall terminate and the Escrow Agent shall be discharged from any further obligation or responsibility hereunder.

SECTION 10. *Execution in Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 11. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CITY OF SANTA CRUZ

By: _____
Finance Director

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

By _____
Authorized Officer

EXHIBIT A

**NOTICE OF FULL PREPAYMENT TO THE HOLDERS OF
CITY OF SANTA CRUZ
1998 Parking and Refunding Certificates of Participation**

NOTICE IS HEREBY GIVEN that there have been called for full prepayment on June __, 2010 all of the above captioned Certificates of Participation, totaling \$_____ in principal amount, plus applicable premium, if any, as listed below:

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Prepayment Price</u>	<u>CUSIP No.*</u>
05/01/2011	\$200,000	4.25%	100.00%	
05/01/2012	\$210,000	4.30%	100.00%	
05/01/2013	\$220,000	4.40%	100.00%	
05/01/2014	\$230,000	4.50%	100.00%	
05/01/2015	\$240,000	4.60%	100.00%	
05/01/2016	\$250,000	4.70%	100.00%	
05/01/2017	\$260,000	4.75%	100.00%	
05/01/2018	\$275,000	4.80%	100.00%	
05/01/2019	\$290,000	4.90%	100.00%	
05/01/2028	\$3,335,000	5.00%	100.00%	

The Bonds are being called pursuant to the prepayment provisions of the governing documents at the referenced Prepayment Price plus accrued interest to June __, 2010 on which date all interest on the Bonds will cease to accrue. Holders of the Bonds are requested to present their Bonds, at the following addresses:

<u>First Class/Registered/Certified</u>	<u>Express Delivery Only</u>	<u>By Hand Only</u>
The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Global Corporate Trust Corporate Trust Window 101 Barclay Street 1st Floor East New York, New York 10286

South County Regional Wastewater Authority
By: The Bank of New York Mellon Trust Company, N.A.
as *Trustee or Agent*
Bondholder Communications: 800-254-2826

Dated: May __, 2010

IMPORTANT TAX NOTICE

Withholding of 28% of gross prepayment proceeds of any payment made within the United States may be required by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), unless the Paying Agent has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the payee. **Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your securities.**

**Note: The Issuer and Trustee/Agent shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Bond. They are included solely for the convenience of the holders.*

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: Charles F. Adams, Esq.

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

ASSIGNMENT AGREEMENT

This ASSIGNMENT AGREEMENT (this "Agreement"), dated for convenience as of May 1, 2010, is between the CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and UNION BANK OF CALIFORNIA, N.A., a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

BACKGROUND:

1. The City of Santa Cruz (the "City") is proceeding to refinance its outstanding 1998 Parking and Refunding Certificates of Participation originally executed and delivered in the aggregate principal amount of \$10,035,000 (the "1998 Certificates").

2. To that end, the City has leased the real property which was previously leased in connection with the 1998 Certificates, consisting generally of the land and improvements which constitute a public golf course and public parking facilities, as more particularly described in Appendix A attached hereto and by this reference incorporated herein (collectively, the "Leased Property"), to the Authority under a Site Lease dated as of May 1, 2010, which has been recorded concurrently herewith (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for the prepayment of the 1998 Certificates.

3. The Authority has authorized the issuance of its City of Santa Cruz Public Financing Authority 2010 Refunding Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of May 1, 2010 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under the Lease Agreement dated as of May 1, 2010 which has been recorded concurrently herewith (the "Lease") under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property.

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

A G R E E M E N T :

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

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

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

- (a) the right to receive and collect all of the Lease Payments from the City under the Lease;
- (b) the right to receive and collect any proceeds of any insurance maintained thereunder with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property; and
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under Section 5.07 of the Indenture, or (ii) otherwise to protect the interests of the Bond Owners in the event of a default by the City under the Lease.

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

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

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

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

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

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

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

**CITY OF SANTA CRUZ PUBLIC FINANCING
AUTHORITY**

By _____
Executive Director

Attest:

Secretary

**UNION BANK OF CALIFORNIA, N.A.,
as Trustee**

By _____
Authorized Officer

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Santa Cruz, County of Santa Cruz, which is more particularly described as follows:

\$ _____
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds

BOND PURCHASE AGREEMENT

_____, 2010

City of Santa Cruz Public Financing Authority
City of Santa Cruz, CA

City of Santa Cruz
City of Santa Cruz, CA

Ladies and Gentlemen:

_____ (the “**Underwriter**”) offers to enter into this Bond Purchase Agreement (this “**Purchase Contract**”) with the City of Santa Cruz Public Financing Authority (the “**Authority**”) and the City of Santa Cruz (the “**City**”). This offer is made subject to the Authority’s and the City’s acceptance by execution of this Purchase Contract and delivery of the same to the Underwriter on or before 11:59 p.m. 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 such acceptance. Upon the Authority’s and the City’s acceptance hereof, the Purchase Contract will be binding upon the Authority, the City and the Underwriter.

Capitalized terms used in this Purchase Contract and not otherwise defined herein shall have the respective meanings set forth for such terms in the Indenture (defined below).

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth in this Purchase Contract, the Underwriter agrees to purchase from the Authority, and the Authority agrees to sell and deliver to the Underwriter, all (but not less than all) of the bonds captioned above (the “**Bonds**”) at a purchase price of \$_____ (being an amount equal to the principal amount of the Bonds (\$_____), *plus* original issue premium of \$_____, and *less* an underwriter’s discount of \$_____). The obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be conditioned on the sale and delivery of all of the Bonds by the Authority to the Underwriter at Closing.

Section 2. Bond Terms; Authorizing Instruments; Purpose. (a) The Bonds shall be dated their date of delivery and shall mature and bear interest as shown on Exhibit A attached hereto. The Bonds shall be as described in, and shall be issued and secured under, an Indenture of Trust (the “**Indenture**”), dated as of May 1, 2010, between the Authority and Union Bank, N.A., as trustee (the “**Trustee**”). The Bonds are payable and subject to prepayment as provided in the Indenture and as described in the Official Statement.

(b) The Bonds will be issued pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and are payable from and secured by the Authority's pledge of "**Revenues**" under and as defined in the Indenture, consisting primarily of "**Lease Payments**" made by the City under the Lease Agreement, dated as of May 1, 2010, between the Authority, as lessor, and the City, as lessee (the "**Lease Agreement**").

(c) The City and the Authority will enter into a Site Lease dated as of May 1, 2010 (the "**Site Lease**"). Under the Site Lease, the City (as owner of the Site) will lease the Site to the Authority. Concurrently, the City and the Authority will enter into the Lease Agreement, under which the Authority will lease the Site back to the City for the purpose of financing certain public improvements (the "**Improvements**").

(d) The Bonds are being issued to provide funds to (i) refinance an outstanding lease obligation of the City under a Lease Agreement dated as of November 1, 1998 (the "**1998 Lease Agreement**") and related outstanding 1998 Parking and Refunding Certificates of Participation (the "**1998 Certificates**"), (ii) fund a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. The City and the Santa Cruz Public Improvement Financing Corporation (the "**Corporation**") previously entered into the 1998 Lease Agreement, under which the City is obligated to pay semiannual lease payments as rental for certain property (the "**1998 Lease Payments**"). The 1998 Lease Payments were assigned to The Bank of New York Mellon Trust Company, N.A., as trustee for the 1998 Certificates (the "**1998 Trustee**"). The 1998 Certificates were executed and delivered under a Trust Agreement dated as of November 1, 1998 (the "**1998 Trust Agreement**"), among the City, the Corporation and the 1998 Trustee. On the date of issuance of the Bonds, the City will cause to be transferred to the 1998 Trustee, as escrow agent under an Escrow Deposit and Trust Agreement (the "**Escrow Agreement**") by and between the City and the 1998 Trustee, for deposit into an escrow fund, an amount sufficient to prepay the 1998 Lease Payments and the corresponding 1998 Certificates on June __, 2010.

Section 3. Public Offering. The Underwriter agrees to make an initial bona fide public offering of all of the Bonds, at not in excess of the initial public offering yields or prices set forth on Exhibit A attached hereto. Following the initial public offering of the Bonds, the offering prices may be changed from time to time by the Underwriter.

Section 4. Official Statement; Continuing Disclosure. (a) The Authority and the City have delivered to the Underwriter the Preliminary Official Statement dated ____, 2010 (the "**Preliminary Official Statement**") and will deliver to the Underwriter the final Official Statement dated the date of this Purchase Contract (as amended and supplemented from time to time pursuant to Section 5(i) of this Purchase Contract, the "**Official Statement**"). The Authority and the City agree to deliver to the Underwriter as many copies of the Official Statement as the Underwriter shall reasonably request as necessary to comply with paragraph (b)(4) of Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "**Rule 15c2-12**"). The Authority and the City agree to deliver the final Official Statement within seven business days after the execution hereof, or such earlier date identified by the Underwriter to be necessary to allow the Underwriter to meet its obligations under the Rule and Rule G-32 of the Municipal Securities Rulemaking Board.

(b) The Authority and the City hereby authorize the use of the Official Statement and the information contained therein by the Underwriter in connection with the public offering and the sale of the Bonds. The Authority and the City consent to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement in connection with the public offering of the Bonds. The Underwriter hereby agrees that they will not send any confirmation requesting payment for the purchase of any Bonds unless the confirmation is accompanied by or preceded by the delivery of a copy of the Official Statement. The Underwriter agrees to: (1) provide the Authority with final pricing information on the Bonds on a timely basis prior to the Closing and (2) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

(c) In connection with issuance of the Bonds, and in order to assist the Underwriter with complying with the provisions of Securities and Exchange Commission Rule 15c2-12 (“**Rule 15c2-12**”), the City, on behalf of itself and the Authority, will execute a continuing disclosure certificate countersigned by the Trustee, as dissemination agent (the “**Continuing Disclosure Certificate**”), under which the City will undertake to provide certain financial and operating data as required by Rule 15c2-12. The form of the Continuing Disclosure Certificate will be attached as an appendix to the Preliminary and Final Official Statements.

Section 5. Representations, Warranties and Covenants of the Authority. The Authority hereby represents, warrants and agrees with the Underwriter that:

(a) The Board of Directors (the “**Board**”) of the Authority has taken official action by a resolution adopted on April 27, 2010 (the “**Authority Resolution**”) adopted by a majority of the members of the Board at meetings duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution, delivery and due performance of the Indenture, the Lease Agreement, the Site Lease and this Purchase Contract (collectively, the “**Authority Agreements**”) and the Official Statement and the taking of any and all such action as may be required on the part of the Authority to carry out, give effect to and consummate the transactions contemplated hereby.

(b) The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “**State**”) and has all necessary power and authority to adopt the Authority Resolution, to enter into and perform its duties under the Authority Agreements and, when executed and delivered by the respective parties thereto, the Authority Agreements will each constitute legal, valid and binding obligation of the Authority enforceable in accordance with its respective terms.

(c) By all necessary official action, the Authority has duly authorized the preparation and delivery of the Preliminary Official Statement and the preparation, execution and delivery of the Official Statement, has duly authorized and approved the execution and delivery of, and the performance of its obligations under, the Bonds and the Authority Agreements, and the consummation by it of all other transactions contemplated by the Authority Resolution, the Authority Agreements, the Preliminary Official Statement and the Official Statement. When executed and delivered by their respective parties, the Authority Agreements (assuming due authorization, execution and delivery by and enforceability against the other parties thereto) will be in full force and effect and each will constitute legal, valid and binding agreements or obligations of the Authority, enforceable in accordance with their respective terms, except as

enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors rights generally, the application of equitable principles, the exercise of judicial discretion and the limitations on legal remedies against public entities in the State.

(d) At the time of the Authority's acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the information and statements in the Official Statement do not and will not contain any untrue statement of a material fact or omit to state a 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.

(e) As of the date hereof, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the Authority or, to the best knowledge of the Authority, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the Authority, or the titles of its members or officers; (ii) in any way question or affect the validity or enforceability of Authority Agreements or the Bonds, or (iii) in any way question or affect the Purchase Contract or the transactions contemplated by the Purchase Contract, the Official Statement, or any other agreement or instrument to which the Authority is a party relating to the Bonds.

(f) There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the Authority required for the execution and delivery of this Purchase Contract or the consummation by the Authority of the other transactions contemplated by the Official Statement or the Authority Agreements.

(g) Any certificate signed by any official of the Authority authorized to do so shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

(h) Except as previously disclosed to the Underwriter, the Authority is not in default, and at no time has the Authority defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding.

(i)

(1) Except as disclosed in 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 Authority since June 30, 2008 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

(2) If between the date of this Purchase Contract and the date which is 25 days following the End of the Underwriting Period (as defined below), any event shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a 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, the Authority shall immediately notify the Underwriter, and if, in the opinion of the

Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriter. "End of the Underwriting Period" shall mean the later of: (i) the Closing Date, and (ii) the date the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public, provided that unless the Underwriter notifies the Authority on or prior to the Closing Date that it retains, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public, the End of the Underwriting Period shall be deemed to have occurred on the Closing Date.

(3) After the Closing, the Authority will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably objects in writing or which is disapproved by Underwriter's Counsel. If any event relating to or affecting the Authority occurs 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 the light of the circumstances existing at the time it is delivered to a purchaser, the Authority will use its best efforts to assist the Underwriter in preparing (at the expense of the Authority for 90 days after the date of the Closing, and thereafter at the expense of the Underwriter) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which 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 a purchaser, not misleading. For the purposes of this subsection, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(j) Except as disclosed in the Official Statement, the Authority has not previously failed to comply in all material respects with any undertakings under Rule 15c2-12.

Section 6. Representations, Warranties and Covenants of the City. The City hereby represents, warrants and agrees with the Underwriter that:

(a) The city council (the "**City Council**") of the City has taken official action by a resolution adopted on April 27, 2010 (the "**City Resolution**") adopted by a majority of the members of the City Council at meetings duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution, delivery and due performance of the Lease Agreement, the Site Lease, the Continuing Disclosure Certificate, the Escrow Agreement and this Purchase Contract (collectively, the "**City Agreements**") and the Official Statement and the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated hereby.

(b) The City is a charter city and municipal corporation, organized and existing under the laws of the State of California (the "**State**") and has all necessary power and authority to adopt the City Resolution, to enter into and perform its duties under the City Agreements and, when executed and delivered by the respective parties thereto, the City Agreements will each

constitute legal, valid and binding obligation of the City enforceable in accordance with its respective terms.

(c) By all necessary official action, the City has duly adopted the City Resolution, has duly authorized the preparation and delivery of the Preliminary Official Statement and the preparation, execution and delivery of the Official Statement, has duly authorized and approved the execution and delivery of, and the performance of its obligations under, the City Agreements, and the consummation by it of all other transactions contemplated by the City Resolution, the City Agreements, the Preliminary Official Statement and the Official Statement. When executed and delivered by their respective parties, the City Agreements (assuming due authorization, execution and delivery by and enforceability against the other parties thereto) will be in full force and effect and each will constitute legal, valid and binding agreements or obligations of the City, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors rights generally, the application of equitable principles, the exercise of judicial discretion and the limitations on legal remedies against public entities in the State.

(d) At the time of the City's acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the information and statements in the Official Statement do not and will not contain any untrue statement of a material fact or omit to state a 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.

(e) As of the date hereof, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the City or, to the best knowledge of the City, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the City, or the titles of its members or officers; (ii) in any way question or affect the validity or enforceability of City Agreements or the Bonds, or (iii) in any way question or affect the Purchase Contract or the transactions contemplated by the Purchase Contract, the Official Statement, or any other agreement or instrument to which the City is a party relating to the Bonds.

(f) There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the City required for the execution and delivery of this Purchase Contract or the consummation by the City of the other transactions contemplated by the Official Statement or the City Agreements.

(g) Any certificate signed by any official of the City authorized to do so shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(h) Except as previously disclosed to the Underwriter, the City is not in default, and at no time has the City defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding.

(i)

(1) Except as disclosed in 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 City since June 30, 2008 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

(2) If between the date of this Purchase Contract and the date which is 25 days following the End of the Underwriting Period (as defined below), any event shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a 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, the City shall immediately notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriter. "End of the Underwriting Period" shall mean the later of: (i) the Closing Date, and (ii) the date the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public, provided that unless the Underwriter notifies the City on or prior to the Closing Date that it retains, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public, the End of the Underwriting Period shall be deemed to have occurred on the Closing Date.

(3) After the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably objects in writing or which is disapproved by Underwriter's Counsel. If any event relating to or affecting the City occurs 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 the light of the circumstances existing at the time it is delivered to a purchaser, the City will use its best efforts to assist the Underwriter in preparing (at the expense of the City for 90 days after the date of the Closing, and thereafter at the expense of the Underwriter) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which 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 a purchaser, not misleading. For the purposes of this subsection, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(j) Except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, the City has not previously failed to comply in all material respects with any undertakings under Rule 15c2-12.

Section 7. The Closing. (a) At 8:00 A.M., San Francisco time, on May __, 2010, or on such earlier or later time or date as may be agreed upon by the Underwriter, the Authority and the City (the "**Closing**"), the Authority shall deliver or cause to be delivered to the Underwriter, at a location or locations to be designated by the Underwriter in New York, New York, the duly executed Bonds (delivered through the book-entry system of The Depository Trust Company). Prior to the Closing, the Authority shall deliver, at the offices of Bond Counsel in San Francisco,

California, or such other place as are mutually agreed upon by the Underwriter and the Authority, the other documents described in this Purchase Contract. On the date of the Closing, the Underwriter shall pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Contract in immediately available funds to the order of the Trustee.

(b) The Bonds shall be issued in fully registered form and shall be prepared and delivered as one Bond for each maturity registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”). It is anticipated that CUSIP identification numbers will be inserted on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Contract.

Section 8. Conditions to Underwriter’s Obligations. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the Authority and the City contained herein and to be contained in the documents and instruments to be delivered on the date of the Closing, and upon the performance by the Authority and the City of their respective obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the date of the Closing. The Underwriter’s obligations under this Purchase Contract are and shall also be subject to the sale, issuance and delivery of the Series A Bonds as well as the following conditions:

(a) The representations and warranties of the Authority and the City contained in this Agreement shall be true and correct in all material respects on the date of this Purchase Contract and on and as of the date of the Closing as if made on the date of the Closing;

(b) As of the date of the Closing, the Official Statement may not have been amended, modified or supplemented, except in any case as may have been agreed to by the Underwriter;

(c) (i) As of the date of the Closing, the Authority Resolution, the City Resolution, the Authority Agreements and the City Agreements shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to by the City and Underwriter, (ii) the Authority shall perform or have performed all of its obligations required under or specified in the Authority Resolution, the Authority Agreements and this Purchase Contract to be performed at or prior to the date of the Closing; and (iii) the City shall perform or have performed all of its obligations required under or specified in the City Resolution, the City Agreements and this Purchase Contract to be performed at or prior to the date of the Closing;

(d) As of the date of the Closing, all necessary official action of the Authority relating to the Authority Agreements, the Authority Resolution and the Official Statement, and all necessary official action of the City relating to the City Agreements, the City Resolution, and the Official Statement, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(e) Subsequent to the date of this Purchase Contract, up to and including the date of the Closing, there shall not have occurred any change in or particularly affecting the Authority, the City, or the City’s finances, as these matters are described in the Official

Statement, which in the reasonable professional judgment of the Underwriter materially impairs the investment quality of the Bonds;

(f) As of or prior to the date of the Closing, the Underwriter shall have received each of the following documents:

(1) Certified copies of the Authority Resolution and the City Resolution.

(2) Duly executed copies of the Indenture, the Lease Agreement, the Site Lease, the Escrow Agreement, the Continuing Disclosure Certificate and this Purchase Contract.

(3) The Preliminary Official Statement and the Official Statement, with the Official Statement duly executed on behalf of the Authority and the City.

(4) An approving opinion of Bond Counsel, dated as of the Closing, as to the validity of the Bonds and the exclusion of interest on the Bonds from federal gross income and State income taxation, addressed to the Authority and the City substantially in the form attached as an appendix to the Official Statement, and a reliance letter with respect thereto addressed to the Underwriter.

(5) A supplemental opinion of Bond Counsel, addressed to the Underwriter, to the effect that:

(i) The Purchase Contract has been duly executed and delivered by the Authority and the City and is valid and binding upon the Authority and the City, subject to laws relating to bankruptcy, insolvency, reorganization or creditors' rights generally and to the application of equitable principles;

(ii) The Bonds are exempt from registration pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and

(iii) The statements contained in the Official Statement on the cover and under the headings "INTRODUCTION," "THE BONDS," "SECURITY FOR THE BONDS" and "TAX MATTERS," and in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" and "APPENDIX E - FORM OF OPINION OF BOND COUNSEL," insofar as such statements purport to describe certain provisions of the Bonds, or to state legal conclusions and the opinion of Bond Counsel regarding the tax-exempt nature of the Bonds, present a fair and accurate summary of the provisions thereof.

(6) A letter of Jones Hall, as Disclosure Counsel, addressed to the Authority, the City and the Underwriter, to the effect that, based upon the information made available to them in the course of their participation in the preparation of the Official Statement and without passing on and without assuming any responsibility for the accuracy, completeness and fairness of the statements in the Official Statement, and having made no independent investigation or verification thereof, no facts have come to their attention that lead them to believe that, as of the date of the Closing, the Official

Statement (except for the appendices thereto, any financial or statistical data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, or any information about The Depository Trust Company or its book-entry only system, as to which no opinion or view need be expressed) contains any untrue statement of a material fact or omits 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.

(7) An opinion of the City Attorney, dated as of the Closing addressed to the Authority, the City and the Underwriter, in form and substance acceptable to the Underwriter, to the effect that:

(i) The City is a municipal corporation and charter law city duly organized and validly existing under the laws and the Constitution of the State of California. The City Council is the governing body of the City.

(ii) The City Resolution was duly adopted at a meeting of the City Council, 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 City Resolution is in full force and effect and has not been modified, amended or rescinded since the date of their adoption.

(iii) To the best of the City Attorney's knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the City (A) affecting the existence of the City or the titles of its City Council members or its officers to their respective offices, (B) affecting the existence of the City, (C) seeking to restrain or to enjoin the issuance or sale of the Bonds, (D) in any way contesting or affecting the validity or enforceability of the City Resolution or the City Agreements, (E) in any way contesting the powers of the City to issue or sell the Bonds or its authority with respect to the City Resolution or the City Agreements, (F) in any way contesting or affecting any of the rights, powers, duties or obligations of the City with respect to the money or property pledged or to be pledged under the Indenture, the Lease Agreement or the Site Lease or (G) in any way questioning the accuracy of the statements in the Official Statement.

(iv) The Authority is a joint exercise of powers authority organized and validly existing under the laws of the State of California. The board is the governing body of the Authority.

(v) The Authority Resolution was duly adopted at a meeting of the Board, 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 Authority Resolution is in full force and effect and has not been modified, amended or rescinded since the date of their adoption.

(vi) To the best of the City Attorney's knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, is pending or threatened in any way against the Authority

(A) affecting the existence of the Authority or the titles of its Board members or its officers to their respective offices, (B) affecting the existence of the Authority, (C) seeking to restrain or to enjoin the issuance or sale of the Bonds, (D) in any way contesting or affecting the validity or enforceability of the Authority Resolution or the Authority Agreements, (E) in any way contesting the powers of the Authority to issue or sell the Bonds or its authority with respect to the Authority Resolution or the Authority Agreements, (F) in any way contesting or affecting any of the rights, powers, duties or obligations of the Authority with respect to the money or property pledged or to be pledged under the Indenture, the Lease Agreement or the Site Lease or (G) in any way questioning the accuracy of the statements in the Official Statement.

(vi) The execution and delivery by the Authority of the Authority Agreements, the Official Statement and the other instruments contemplated by any of such documents to which the Authority is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Authority is a party or is otherwise subject or bound in a manner which would materially adversely affect the Authority's performance under the Authority Agreements.

(vii) To the best of the City Attorney's knowledge, there is no action, suit or proceeding before or by any court, public board or body pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the Authority or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Authority Agreements or the Bonds, or (c) find illegal, invalid or unenforceable the Authority Agreements or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the Authority is a party.

(viii) All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Authority of its obligations under the Authority Agreements have been obtained and are in full force and effect.

(8) An executed certificate of the Authority and the City, dated as of the date of the Preliminary Official Statement, in the form attached as Exhibit B.

(9) An executed closing certificate of the Authority, dated as of the Closing, in the form attached as Exhibit C.

(10) An executed closing certificate of the City, dated as of the Closing, in the form attached as Exhibit D.

(11) The opinion of counsel of the Trustee, dated as of the Closing, addressed to the Authority, the City and the Underwriter to the effect that:

(i) The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the State, having full powers and authority and being qualified to enter into, accept and administer the trust created under the Indenture and to enter into the Indenture.

(ii) The Indenture has been duly authorized, executed and delivered by the Trustee, and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture constitutes a legal, valid and binding agreement of the Trustee enforceable in accordance with its terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.

(12) The opinion of counsel of the 1998 Trustee, dated as of the Closing, addressed to the Authority, the City and the Underwriter to the effect that:

(i) The 1998 Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the State, having full powers and authority and being qualified to enter into, accept and administer the trust created under the Indenture and to enter into the Escrow Agreement.

(ii) The Escrow Agreement has been duly authorized, executed and delivered by the 1998 Trustee, and, assuming due authorization, execution and delivery by the other parties thereto, the Escrow Agreement constitutes a legal, valid and binding agreement of the 1998 Trustee enforceable in accordance with its terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.

(13) A certificate or certificates, dated as of the Closing, in form and substance acceptable to the Underwriter, of an authorized officer of officers of the Trustee to the effect that the Trustee has accepted the duties imposed by the Indenture and is authorized to carry out such duties.

(14) A certificate or certificates, dated as of the Closing, in form and substance acceptable to the Underwriter, of an authorized officer of officers of the 1998 Trustee to the effect that the 1998 Trustee has accepted the duties imposed by the Escrow Agreement and is authorized to carry out such duties.

(15) A Certificate as to Arbitrage and a Certificate Regarding Use of Proceeds duly signed on behalf of the Authority.

(16) Evidence of required filings with the California Debt and Investment Advisory Commission.

(17) A copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book-entry system.

(18) Evidence that the Bonds have received the ratings specified in the Official Statement.

(19) A report of an independent certified public accountant or other recognized verification service provider as to the defeasance of the 1998 Certificates and the discharge of the 1998 Lease Agreement and the 1998 Trust Agreement.

(20) The defeasance opinion of bond counsel required by Section 13.01 of the 1998 Trust Agreement.

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

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Contract shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance satisfactory to the Underwriter.

If the Authority and the City are unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter, the Authority nor the City shall be under further obligations hereunder, except that the respective obligations of the Authority, the City and the Underwriter set forth in Section 11 of this Purchase Contract shall continue in full force and effect.

Section 9. Conditions to Authority's and City's Obligations. The performance by the Authority and the City of their respective obligations under this Purchase Contract are conditioned upon: (i) the performance by the Underwriter of its obligations hereunder and (ii) receipt by the Authority and the City of opinions addressed to the Authority and the City, and receipt by the Underwriter of opinions addressed to the Underwriter, and the delivery of certificates being delivered on the date of the Closing by persons and entities other than the Authority and the City.

Section 10. Termination Events. The Underwriter shall have the right to terminate the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the Authority and the City of its election to do so if, after the execution hereof and prior to the Closing, any of the following events occurs:

(1) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially and adversely affected by any decision issued by a court of the United States (including the United States Tax Court) or of the State of

California, by any ruling or regulation (final, temporary or proposed) issued by or on behalf of the Department of the Treasury of the United States, the Internal Revenue Service, or other governmental agency of the United States, or any governmental agency of the State of California, or by a tentative decision or announcement by any member of the House Ways and Means Committee, the Senate Finance Committee, or the Conference Committee with respect to contemplated legislation or by legislation enacted by, pending in, or favorably reported to either the House of Representatives or either House of the Legislature of the State of California, or formally proposed to the Congress of the United States by the President of the United States or to the Legislature of the State of California by the Governor of the State of California in an executive communication, affecting the tax status of the Authority or the City, its property or income, its bonds (including the Bonds) or the interest thereon or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended;

(2) the United States becomes engaged in hostilities that result in a declaration of war or a national emergency, or any other outbreak of hostilities occurs, or a local, national or international calamity or crisis occurs, financial or otherwise, the effect of such outbreak, calamity or crisis being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds;

(3) there occurs a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, New York State or California State authorities;

(4) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission is issued or made to the effect that the issuance, offering or sale of the Bonds is or would be in violation of any provision of the Securities Act of 1933, as then in effect, or of the Securities Exchange Act of 1934, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;

(5) legislation is enacted by the House of Representatives or the Senate of the Congress of the United States of America, or a decision by a court of the United States of America is rendered, or a ruling or regulation by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter is made or proposed to the effect that the Bonds are not exempt from registration, qualification or other similar requirements of the Securities Act of 1933, as then in effect, or of the Trust Indenture Act of 1939, as then in effect;

(6) in the reasonable judgment of the Underwriter, the market price of the Bonds, or the market price generally of obligations of the general character of the Bonds, might be materially and adversely affected because additional material restrictions not in force as of the date hereof is imposed upon trading in securities generally by any governmental authority or by any national securities exchange;

(7) the Comptroller of the Currency, The New York Stock Exchange, or other national securities exchange, or any governmental authority, imposes, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit

by, or the charge to the net capital requirements of, or financial responsibility requirements of the Underwriter;

(8) a general banking moratorium is established by federal, New York or State authorities;

(9) any legislation, ordinance, rule or regulation is introduced in or be enacted by any governmental body, department or agency in the State or a decision of a court of competent jurisdiction within the State is rendered, which, in the opinion of the Underwriter, after consultation with the Authority and the City, materially adversely affects the market price of the Bonds;

(10) any federal or California court, authority or regulatory body takes action materially and adversely affecting the collection of Revenues under the Indenture;

(11) any withdrawal or downgrading of any underlying rating of any securities of the City by a national municipal bond rating agency that, in the opinion of the Underwriter, adversely affects the market price of the Bonds; or

(12) an event occurs which in the opinion of the Underwriter makes untrue or misleading in any material respect any statement or information contained in the Official Statement (other than any information relating to the Underwriter)..

Section 11. Payment of Expenses. (a) The Underwriter shall be under no obligation to pay, and the City shall pay the following expenses incident to the performance of the Authority's and the City's obligations hereunder:

(i) the fees and disbursements of Bond Counsel and Disclosure Counsel;

(ii) the cost of printing and delivering the Bonds, the Preliminary Official Statement and the Official Statement (and any amendment or supplement prepared pursuant to Section 4 of this Purchase Contract);

(iii) the fees and disbursements of accountants, advisers and of any other experts or consultants retained by the Authority or the City; and

(iv) any other expenses and costs of the Authority and the City incident to the performance of their respective obligations in connection with the authorization, issuance and sale of the Bonds, including out-of-pocket expenses and regulatory expenses, and any other expenses agreed to by the parties.

(b) The Underwriter shall pay all expenses incurred by it in connection with the public offering and distribution of the Bonds including, but not limited to:

(i) all advertising expenses in connection with the offering of the Bonds; and

(ii) all out-of-pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, except as provided in (a) above or as otherwise agreed to by the Underwriter and the City.

Section 12. Notices. Any notice or other communication to be given to the Authority or the City under this Purchase Contract may be given by delivering the same in writing to the Authority and the City at the addresses set forth on the first page of this Purchase Contract, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to _____.

Section 13. Survival of Representations, Warranties, Agreements. All of the Authority's and the City's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect regardless of: (a) any investigations made by or on behalf of the Underwriter; or (b) delivery of and payment for the Bonds pursuant to this Purchase Contract. The agreements contained in this Section and in Section 11 shall survive any termination of this Purchase Contract.

Section 14. Benefit; No Assignment. This Purchase Contract is made solely for the benefit of the Authority, the City and the Underwriter (including its successors and assigns), and no other person shall acquire or have any right hereunder or by virtue hereof. The rights and obligations created by this Purchase Contract are not subject to assignment by the Underwriter, the Authority or the City without the prior written consent of the other parties hereto.

Section 15. Severability. In the event that any provision of this Purchase Contract is held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 16. Counterparts. This Purchase Contract may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 17. Governing Law. This Purchase Contract shall be governed by the laws of the State of California.

Section 18. Effectiveness. This Purchase Contract shall become effective upon the execution of the acceptance hereof by an authorized officer of the Authority and the City, and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

_____, as Underwriter

By: _____

Its: _____

Accepted:

CITY OF SANTA CRUZ PUBLIC
FINANCING AUTHORITY

By: _____

Authorized Representative

CITY OF SANTA CRUZ

By: _____

Authorized Representative

EXHIBIT A

\$ _____
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds

MATURITY SCHEDULE

\$ _____ Serial Bonds

<u>Principal Payment Date (May 1)</u>	<u>Principal</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
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C = priced to the optional par call date of May 1, ____.

EXHIBIT B

**CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds**

15c2-12 CERTIFICATE

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Santa Cruz (the "City") and the City of Santa Cruz Public Financing Authority (the "Authority"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City and the Authority as follows:

(1) This Certificate is delivered in connection with the offering and sale of the bonds captioned above (the "Bonds") in order to enable the underwriter of the Bonds to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds, the Authority and the City (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

Dated: _____, 2010.

CITY OF SANTA CRUZ

By: _____
Authorized Officer

CITY OF SANTA CRUZ PUBLIC
FINANCING AUTHORITY

By: _____
Authorized Officer

EXHIBIT C

\$ _____
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Refunding Lease Revenue Bonds

CLOSING CERTIFICATE OF THE AUTHORITY

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Santa Cruz Public Financing Authority (the "Authority"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the Authority as follows:

(i) The representations, warranties and covenants of the Authority contained in the Bond Purchase Agreement dated as of _____, 2010, by and among the Authority, the City of Santa Cruz and _____, as underwriter (the "Purchase Contract"), are true and correct and in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing.

(ii) The Authority Resolution is in full force and effect at the date of the Closing and has not been amended, modified or supplemented, except as agreed to by the Authority and the Underwriter.

(iii) The Authority has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date of the Closing.

(iv) Subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the Authority, whether or not arising in the ordinary course of the operations of the Authority, as described in the Official Statement.

(v) The Official Statement does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

Capitalized terms used but not defined herein have the meanings given in the Purchase Contract.

Dated: May __, 2010

CITY OF SANTA CRUZ PUBLIC
FINANCING AUTHORITY

By: _____
Authorized Officer

EXHIBIT D

\$ _____
CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY
2010 Lease Revenue Bonds

CLOSING CERTIFICATE OF THE CITY

The undersigned hereby certifies and represents that he or she is the duly appointed and acting representative of the City of Santa Cruz (the "City"), and is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(i) The representations, warranties and covenants of the City contained in the Bond Purchase Agreement dated as of _____, 2010, by and among the City, the City of Santa Cruz Public Financing Authority and _____, as underwriter (the "Purchase Contract") are true and correct and in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing.

(ii) The City Resolution is in full force and effect at the date of the Closing and has not been amended, modified or supplemented, except as agreed to by the City and the Underwriter.

(iii) The City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date of the Closing.

(iv) Subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising in the ordinary course of operations, as described in the Official Statement.

(v) The Official Statement does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(vii) No consent is required from _____ for the City to include its June 30, 2009 audited financial statements as Appendix B to the Official Statement.

Capitalized terms used but not defined herein have the meanings given in the Purchase Contract.

Dated: May __, 2010

CITY OF SANTA CRUZ

By: _____
Authorized Officer

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060

**MINUTES OF A REGULAR JOINT CITY COUNCIL/
REDEVELOPMENT AGENCY MEETING**

April 13, 2010

1:00 PM SESSION

Vice Mayor Coonerty opened the Closed Litigation Session at 1:10 p.m. in a public session in the Courtyard Conference Room, for the purpose of announcing the agenda, considering Item 1, and for considering public testimony.

SPEAKING FROM THE FLOOR ABOUT ITEM E:

Becky Johnson
Robert Norse
An unidentified man

SPEAKING FROM THE FLOOR ABOUT ITEM D(2):

Leslie Harris, Esq.

SPEAKING FROM THE FLOOR ABOUT ITEM C:

Norman Schwartz

Referral to Closed Session

1. Referral to Closed Session - 1520 K1 Pacific Avenue. (ED)

Action

Councilmember Lane moved, seconded by Councilmember Madrigal, to approve a referral to closed session for the potential lease of the kiosk located at 1520 K-1 Pacific Avenue for the purpose of instructing the negotiator concerning the leasing process, terms, or both. The motion carried unanimously.

Council closed the session to the public at 1:32 p.m. All Councilmembers were present (Mayor Rotkin arrived at 1:27 p.m.). (See pages 1139 through 1140 for a report on closed session.)

3:00 PM SESSION

Mayor/Chair Rotkin called the meeting to order at 3:13 p.m. in the Council Chambers.

Roll Call

Present: Councilmembers/Members Lane, Mathews, Beiers, Madrigal, Robinson; Vice Mayor/Vice Chair Coonerty; Mayor/Chair Rotkin.

Absent: None.

Staff: City Manager R. Wilson, Assistant City Manager M. Bernal, City Attorney J. Barisone, Director of Finance J. Dilles, Chief of Fire R. Oliver, Director of Human Resources L. Sullivan, Director of Information Technology S. Caiocca, Director of Parks and Recreation D. Shoemaker, Chief of Police H. Skerry, Director of Public Works M. Dettle, Director of Water B. Kocher, Volunteer Coordinator A. Dayton, City Clerk L. Brewer, Deputy City Clerk T. Graves.

Pledge of Allegiance

Presentation - National Child Abuse Prevention Month and National Volunteer Week Mayor's Proclamations - Court Appointed Special Advocates (CASA) – Accepted by Linda Bixby and Marilyn Cole.

Presentation - National Crime Victims' Rights Week Mayor's Proclamation – Accepted by Julie Snyder.

Presentation - CitySERVE Volunteer Recognition Awards presented by Mayor Rotkin and Volunteer Coordinator A. Dayton.

Presiding Officer's Announcements

Statements of Disqualification – None.

Additions and Deletions – Item 25 was deleted from the agenda.

JOINT CITY COUNCIL/
REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
3:00 P.M. SESSION

Joint City Council/Redevelopment Agency Oral Communications

Commission for the Prevention of Violence Against Women Coordinator K. Agnone announced that April is Sexual Assault Awareness Month, and also that April 21, 2010 is Denim Day to commemorate victims of sexual assault.

Colin Ross spoke with concerns about Traffic Impact Fees.

Mike Tomasi spoke about veteran's health care.

Cynthia Mathews spoke about the Census, and urged all citizens to send in their Census forms.

Consent Agenda

Item 16 was removed from the Consent Agenda.

Action

Vice Mayor/Vice Chair Coonerty moved, seconded by Councilmember/Member Mathews, to approve the remaining items on the Consent Agenda. The motion carried unanimously.

2. Minutes of the March 23, 2010 Regular City Council Meeting. (CC)

Motion carried to approve as submitted.

3. Minutes of the March 23, 2010 Regular Redevelopment Agency Meeting. (CC)

Motion carried to approve as submitted.

4. Monterey Bay National Marine Sanctuary Visitor Center – Amendment to Design Development Contract and New Construction Administration Contract with Thomas Hacker Architects, Inc. (ED)

Resolution No. NS-28,181 was adopted authorizing the City Manager to amend the Design Development contract with Thomas Hacker Architects, Inc. to complete the construction documents for the Monterey Bay National Marine Sanctuary Visitor Center project, and to enter into a new contract for the construction administration of the project, in a form approved by the City Attorney.

Consent Agenda (continued)

5. Monterey Bay National Marine Sanctuary Visitor Center Public Art Program (r520901). (ED)

Motion carried to approve the Arts Commission recommendation to proceed with a public art project for the Monterey Bay National Marine Sanctuary Visitor Center.

6. Façade Improvement Program - Inclusion of City-Owned Properties Located within the Eastside Redevelopment Area and Merged Redevelopment Area. (ED)

Redevelopment Agency Resolution No. 1481 was adopted modifying the façade improvement program to include all qualifying City-owned properties located within the boundaries of the Eastside Storefront Improvement Program and the Merged Project Area consistent with the Eastside Business Area Improvement Plan, the Merged Project Area Plan and California Redevelopment Law.

7. FY 2011 Cooperative Retail Management Business Real Property Improvement District Assessments. (ED)

Motion carried to approve the report prepared by the Downtown Management Corporation for FY 2011, and to adopt Resolution of Intention No. NS-28,182 to levy a business improvement assessment for FY 2011, and to schedule a public hearing for May 11, 2010, after the hour of 3:00 p.m., on the levy of the assessments for FY 2011.

8. Monterey Bay Unified Air Pollution Control District AB2766 Grant – Request for Extension and Revised Scope. (ED)

Resolution No. NS-28,183 was adopted authorizing City Manager to request an extension and revised scope for the Monterey Bay Unified Air Pollution Control District AB2766 Vehicle Emissions Reduction Grant to allow the grant to be utilized to provide new electric charging stations in the downtown parking structures and to provide a pay-for-performance program for increased biodiesel sales through an existing biodiesel supplier in the City.

JOINT CITY COUNCIL/
 REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

Consent Agenda (continued)

9. 49-B Municipal Wharf - Municipal Wharf Lease Agreement with Olitas Cantina & Grill, LLC. (ED)

Motion carried to authorize and direct the City Manager to execute a Municipal Wharf Lease Agreement and any amendments thereto of a non-substantive nature, in a form acceptable to the City Attorney, with Olitas Cantina & Grill, LLC for the operation of a restaurant at 49-B Municipal Wharf.

10. Real Property Acquisition – 575 Dimeo Lane (APN 059-121-07).
 (ED)(PW)

Resolution No. NS-28,184 was adopted authorizing and directing the City Manager to enter into a Purchase and Sale Agreement for real property to be purchased from the Refuse Enterprise Fund, in a form approved by the City Attorney, with Loren F. Humphrey Trust, and Resolution No. NS-28,185 was adopted appropriating funds and amending the FY 2010 budget in the amount of \$721,702 to acquire 575 Dimeo Lane (APN 059-121-07).

11. Reimbursement Resolution for Landfill Improvement Project. (FN)

Resolution No. NS-28,186 was adopted declaring the City's intention to reimburse expenditures relating to the Landfill Improvement Project from the proceeds of tax-exempt obligations of the City.

12. East Cliff Drive Slope Stabilization and Repair Project (m400811) – Budget Adjustment. (FN)

Resolution No. NS-28,187 was adopted transferring funds and amending the FY 2010 budget in the amount of \$300,000 to General CIP (Fund 311) from Liability Insurance (Fund 842) for the East Cliff Drive Slope Stabilization and Repair Project (m400811).

13. Liability Claims Filed Against City of Santa Cruz. (HR)

Motion carried to reject liability claims: a) Wanda Fowler; b) Gregory Peter Panos; c) Ethan Shenkman; and d) Ethan Shenkman, based upon staff investigation.

Consent Agenda (continued)

14. City's Classification and Compensation Plans - Police Department. (HR)

Resolution No. NS-28,188 was adopted modifying the Classification and Compensation Plans by reducing the Deputy Police Chief salary range and redistributing the salary savings to the Police Lieutenant classification.

15. Beach/Pacific (Wharf) Intersection Roundabout Project (c400035) – Budget Adjustment. (FN)

Resolution No. NS-28,189 was adopted transferring funds and amending the FY 2010 budget in the amount of \$992,574 from Traffic Impact Fee - Citywide Fund 226 to the Gas Tax Fund 221 for Beach/Pacific (Wharf) Intersection Roundabout Project #c400035.

16. ARRA - Center/Pacific (Depot) Intersection Roundabout Project (c401012) – Authorization to Advertise and Award. (PW)

Assistant Director of Public Works/City Engineer C. Schneiter presented an oral report and responded to Council's questions.

SPEAKING FROM THE FLOOR EXPRESSING OPPOSITION AND/OR CONCERNS:

Mike Tomasi
John

SPEAKING FROM THE FLOOR EXPRESSING SUPPORT AND/OR CONCERNS:

Micah Posner
Reed Searle
Debbie Bulger

Action

Councilmember Mathews moved, seconded by Councilmember Robinson, to approve the plans and specifications for the American Recovery and Revitalization Act (ARRA)-funded Center/Pacific (Depot) Intersection Roundabout Project (c401012), and authorize staff to advertise for bids. The City Manager is hereby authorized and directed to execute the contract as authorized by resolution NS-27,563, with the additional direction that signs be upgraded to increasingly protect cyclists as soon as possible; and to adopt Resolution No. NS-28,190 appropriating funds and amending the FY 2010 budget in the amount of \$1,000,000 to reflect ARRA stimulus funding.

JOINT CITY COUNCIL/
 REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

Consent Agenda (continued)

16. ARRA - Center/Pacific (Depot) Intersection Roundabout Project (c401012) – Authorization to Advertise and Award. (Continued)

Councilmember Beiers moved, seconded by Councilmember Madrigal, to amend the motion to include raised pedestrian sidewalks. The motion FAILED by the following vote:

AYES:	Councilmembers Madrigal, Beiers.
NOES:	Councilmembers Lane, Mathews, Robinson; Vice Mayor Coonerty; Mayor Rotkin.
ABSENT:	None.
DISQUALIFIED:	None.

Action

The main motion carried unanimously.

17. Grant of Easement - County of Santa Cruz - East Zayante Road APN 074-012-07. (WT)

Resolution No. NS-28,191 was adopted authorizing the City Manager to execute a Grant of Easement to the County of Santa Cruz covering property located along East Zayante Road on APN 074-012-07.

18. Graham Hill Water Treatment Plant Improvements Project - Technical Review Services and Change Order No. 1. (WT)

Motion carried to ratify the agreement with HDR Engineering, Inc. (Walnut Creek, CA) for Technical Review services of the Graham Hill Water Treatment Plant Improvements Project, and to authorize the City Manager to execute Change Order No. 1 in the amount of \$25,005 for additional Technical Review services of the Graham Hill Water Treatment Plant Improvements Project.

End Consent Agenda

Note: Councilmember Madrigal left the meeting at 4:24 p.m.

Public Hearing

19. Ordinance No. 2010-09. Ordinance Amending Chapter 2.40.014 Pertaining to Meetings of Boards and Commissions. (CA)

Mayor Rotkin opened the public hearing at 4:25 p.m.

No members of the public spoke.

Mayor Rotkin closed the public hearing at 4:25 p.m.

Action

Councilmember Robinson moved, seconded by Councilmember Lane, to pass Ordinance No. 2010-09 for final adoption. The motion carried unanimously (Councilmember Madrigal absent).

General Business

20. Imagine Positive Change Program. (CN)

Jennifer Greene and Downtown Association Executive Director Chip presented oral reports and responded to Council's questions.

SPEAKING FROM THE FLOOR EXPRESSING SUPPORT AND/OR CONCERNS:

Marlene Majewska
Brad Snyder

SPEAKING FROM THE FLOOR EXPRESSING OPPOSITION AND/OR CONCERNS:

Mike Tomasi

Action

Councilmember Mathews moved, seconded by Vice Mayor Rotkin, to approve the donation and installation of converted parking meters on City sidewalks to be used as collection devices for the initial pilot phase of the Imagine Positive Change initiative, and to specify that the original pilot will include up to eight meters, that the City Council finds that they fall under the category of information/public art that has a 14-foot limit for certain proscribed activities around it, that the final design and language is subject to additional minor revision and refinement, and that the final location of the first eight meters should minimize further reductions of space for restricted activities and in no case should eliminate all such activities where they are currently permitted on any given block. The motion carried unanimously (Councilmember Madrigal absent).

JOINT CITY COUNCIL/
 REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

General Business (Continued)

21. Council Meeting Calendar

The City Council reviewed the meeting calendar attached to the agenda and revised as necessary.

22. City Attorney Oral Report on Closed Session.

A. Labor Negotiations (Government Code §54956.6).

Lisa Sullivan—Negotiator

Employee Organizations—

1. Police Management
2. Police Officers' Association
3. SEIU—All Units
4. Operating Engineers-Supervisors
5. Operating Engineers-Managers
6. FIRE IAFF
7. Fire Management

Council received status reports, instructed the negotiator, and took no reportable action.

B. Real Property (Government Code §54956.8).

148 Walnut Avenue Property Acquisition (Joe Appenrodt - Owner)

APN 005-072-33

Bonnie Lipscomb-City Negotiator

Council did not discuss the above item.

212 Church Street Property Acquisition (Joe Appenrodt - Owner)

APN 005-048-12

Bonnie Lipscomb-City Negotiator

1520 K1 Pacific Avenue Kiosk (Renate Clock - Lessee)

No APN

Bonnie Lipscomb-City Negotiator

Council received status reports and instructed the negotiator.

General Business (Continued)

22. City Attorney Oral Report on Closed Session (Continued)

C. Conference with Legal Counsel– Anticipated Litigation (Government Code §54956.9).

Initiation of Litigation by City (1 case to be discussed)

1 case was discussed. Council took no reportable action.

D. Conference with Legal Counsel – Liability Claims (Government Code §54956.95)

1. Claimant: Wanda Fowler
2. Claimant: Gregory Peter Panos
3. Claimant: Ethan Shenkman (2 claims)
4. Claimant: Kathryn A. Capaldo

Claims Against: City of Santa Cruz

Claims 1 through 3 were not discussed. Council authorized settlement of claim 4.

E. Conference With Legal Counsel — Existing Litigation (Government Code §54956.9).

1. People v. Johnson, Santa Cruz County Superior Case No. SCT073906.

Council received status reports and took no reportable action.

23. Council Memberships in City Groups and Outside Agencies.

The Presiding Officer provided Councilmembers with the opportunity to update Council and the public regarding City Groups and Outside Agencies.

At 5:19 p.m. the City Council adjourned to a continued Closed Session and then to the 7:00 p.m. Session. The Redevelopment Agency adjourned to the 7:00 p.m. Session.

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060

**MINUTES OF A JOINT CITY COUNCIL/
REDEVELOPMENT AGENCY MEETING**

April 13, 2010

7:00 P.M. SESSION

Mayor/Chair Rotkin called the meeting to order at 7:07 p.m. in Council Chambers.

Roll Call

Present: Councilmembers/Members Lane, Mathews, Beiers, Robinson, Vice Mayor/Vice Chair Coonerty (arrived 7:10 p.m.); Mayor/Chair Rotkin.

Absent: Councilmember Madrigal.

Staff: City Manager R. Wilson, City Attorney J. Barisone, City Clerk L. Brewer.

Presentation – Mayor’s Proclamation in Recognition of Jazz Appreciation Month, presented to Barney Greer, Barney and the Dinosaurs.

Presentation - Sister Cities Committee Hans Christian Andersen Writing Awards, presented by Bill Denevan.

Joint City Council and Redevelopment Agency Oral Communications

Michael Bethke invited Councilmembers and members of the public to attend the inauguration of Rotary Field at Santa Cruz High School Sunday, May 23, 2010 from 2:00 p.m. to 4:00 p.m.

Public Hearings

24. Medical Marijuana Ordinance Amending Title 6. (PL)

Action

Councilmember Lane moved, seconded by Councilmember Robinson, to continue this item to the meeting of April 27, 2010 at 7:00 p.m. The motion carried unanimously (Councilmember Madrigal absent).

Public Hearings (continued)

25. Emergency Ordinance Amending Section 21.03.020 Pertaining to Relocation Assistance in Cases of Temporary (Less than 90 Days) Displacement. (CA)

This item was deleted.

Adjournment — At 7:31 p.m., the Redevelopment Agency adjourned from the regularly scheduled meeting of April 13, 2010 to the next regularly scheduled meeting on April 27, 2010, for a closed litigation session at 1:30 p.m., in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m. and 7:00 p.m. in Council Chambers.

Adjournment — At 7:31 p.m., the City Council adjourned from the regularly scheduled meeting of April 13, 2010, to a Special City Council Meeting on Tuesday, April 20, 2010, at the hour of 4:00 p.m. in the City Council Chambers to consider the Capital Improvement Program. The next regularly scheduled meeting will be on April 27, 2010, for a closed litigation session at 1:30 p.m., in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m. and 7:00 p.m. in Council Chambers.

Respectfully submitted

Tom Graves
Deputy City Clerk

Approved

Lorrie Brewer
City Clerk

Approved

Michael Rotkin
Mayor

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060

MINUTES OF A REGULAR REDEVELOPMENT AGENCY MEETING

April 13, 2010

3:00 PM SESSION

Mayor/Chair Rotkin called the meeting to order at 3:13 p.m. in the Council Chambers.

Roll Call

Present: Councilmembers/Members Lane, Mathews, Beiers, Madrigal, Robinson; Vice Mayor/Vice Chair Coonerty; Mayor/Chair Rotkin.

Absent: None.

Staff: City Manager R. Wilson, Assistant City Manager M. Bernal, City Attorney J. Barisone, Director of Finance J. Dilles, Chief of Fire R. Oliver, Director of Human Resources L. Sullivan, Director of Information Technology S. Caiocca, Director of Parks and Recreation D. Shoemaker, Chief of Police H. Skerry, Director of Public Works M. Dettle, Director of Water B. Kocher, Volunteer Coordinator A. Dayton, City Clerk L. Brewer, Deputy City Clerk T. Graves.

Pledge of Allegiance

Presentation - National Child Abuse Prevention Month and National Volunteer Week Mayor's Proclamations - Court Appointed Special Advocates (CASA) – Accepted by Linda Bixby and Marilyn Cole.

Presentation - National Crime Victims' Rights Week Mayor's Proclamation – Accepted by Julie Snyder.

Presentation - CitySERVE Volunteer Recognition Awards presented by Mayor Rotkin and Volunteer Coordinator A. Dayton.

Presiding Officer's Announcements

Statements of Disqualification – None.

Additions and Deletions – Item 25 was deleted from the agenda.

REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

Joint City Council/Redevelopment Agency Oral Communications

Commission for the Prevention of Violence Against Women Coordinator K. Agnone announced that April is Sexual Assault Awareness Month, and also that April 21, 2010 is Denim Day to commemorate victims of sexual assault.

Colin Ross spoke with concerns about Traffic Impact Fees.

Mike Tomasi spoke about veteran's health care.

Cynthia Mathews spoke about the Census, and urged all citizens to send in their Census forms.

Consent Agenda

Item 16 was removed from the Consent Agenda.

Action

Vice Mayor/Vice Chair Coonerty moved, seconded by Councilmember/Member Mathews, to approve the remaining items on the Consent Agenda. The motion carried unanimously.

1. Minutes of the March 23, 2010 Regular City Council Meeting. (CC)

Motion carried to approve as submitted.

2. Minutes of the March 23, 2010 Regular Redevelopment Agency Meeting. (CC)

Motion carried to approve as submitted.

3. Monterey Bay National Marine Sanctuary Visitor Center – Amendment to Design Development Contract and New Construction Administration Contract with Thomas Hacker Architects, Inc. (ED)

Resolution No. NS-28,181 was adopted authorizing the City Manager to amend the Design Development contract with Thomas Hacker Architects, Inc. to complete the construction documents for the Monterey Bay National Marine Sanctuary Visitor Center project, and to enter into a new contract for the construction administration of the project, in a form approved by the City Attorney.

REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
3:00 P.M. SESSION

Consent Agenda (continued)

4. Monterey Bay National Marine Sanctuary Visitor Center Public Art Program (r520901). (ED)

Motion carried to approve the Arts Commission recommendation to proceed with a public art project for the Monterey Bay National Marine Sanctuary Visitor Center.

5. Façade Improvement Program - Inclusion of City-Owned Properties Located within the Eastside Redevelopment Area and Merged Redevelopment Area. (ED)

Redevelopment Agency Resolution No. 1481 was adopted modifying the façade improvement program to include all qualifying City-owned properties located within the boundaries of the Eastside Storefront Improvement Program and the Merged Project Area consistent with the Eastside Business Area Improvement Plan, the Merged Project Area Plan and California Redevelopment Law.

6. FY 2011 Cooperative Retail Management Business Real Property Improvement District Assessments. (ED)

Motion carried to approve the report prepared by the Downtown Management Corporation for FY 2011, and to adopt Resolution of Intention No. NS-28,182 to levy a business improvement assessment for FY 2011, and to schedule a public hearing for May 11, 2010, after the hour of 3:00 p.m., on the levy of the assessments for FY 2011.

7. Monterey Bay Unified Air Pollution Control District AB2766 Grant – Request for Extension and Revised Scope. (ED)

Resolution No. NS-28,183 was adopted authorizing City Manager to request an extension and revised scope for the Monterey Bay Unified Air Pollution Control District AB2766 Vehicle Emissions Reduction Grant to allow the grant to be utilized to provide new electric charging stations in the downtown parking structures and to provide a pay-for-performance program for increased biodiesel sales through an existing biodiesel supplier in the City.

REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

Consent Agenda (continued)

8. 49-B Municipal Wharf - Municipal Wharf Lease Agreement with Olitas Cantina & Grill, LLC. (ED)

Motion carried to authorize and direct the City Manager to execute a Municipal Wharf Lease Agreement and any amendments thereto of a non-substantive nature, in a form acceptable to the City Attorney, with Olitas Cantina & Grill, LLC for the operation of a restaurant at 49-B Municipal Wharf.

9. Real Property Acquisition – 575 Dimeo Lane (APN 059-121-07).
 (ED)(PW)

Resolution No. NS-28,184 was adopted authorizing and directing the City Manager to enter into a Purchase and Sale Agreement for real property to be purchased from the Refuse Enterprise Fund, in a form approved by the City Attorney, with Loren F. Humphrey Trust, and Resolution No. NS-28,185 was adopted appropriating funds and amending the FY 2010 budget in the amount of \$721,702 to acquire 575 Dimeo Lane (APN 059-121-07).

10. Reimbursement Resolution for Landfill Improvement Project. (FN)

Resolution No. NS-28,186 was adopted declaring the City's intention to reimburse expenditures relating to the Landfill Improvement Project from the proceeds of tax-exempt obligations of the City.

11. East Cliff Drive Slope Stabilization and Repair Project (m400811) – Budget Adjustment. (FN)

Resolution No. NS-28,187 was adopted transferring funds and amending the FY 2010 budget in the amount of \$300,000 to General CIP (Fund 311) from Liability Insurance (Fund 842) for the East Cliff Drive Slope Stabilization and Repair Project (m400811).

12. Liability Claims Filed Against City of Santa Cruz. (HR)

Motion carried to reject liability claims: a) Wanda Fowler; b) Gregory Peter Panos; c) Ethan Shenkman; and d) Ethan Shenkman, based upon staff investigation.

REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
3:00 P.M. SESSION

Consent Agenda (continued)

13. City's Classification and Compensation Plans - Police Department. (HR)

Resolution No. NS-28,188 was adopted modifying the Classification and Compensation Plans by reducing the Deputy Police Chief salary range and redistributing the salary savings to the Police Lieutenant classification.

14. Beach/Pacific (Wharf) Intersection Roundabout Project (c400035) – Budget Adjustment. (FN)

Resolution No. NS-28,189 was adopted transferring funds and amending the FY 2010 budget in the amount of \$992,574 from Traffic Impact Fee - Citywide Fund 226 to the Gas Tax Fund 221 for Beach/Pacific (Wharf) Intersection Roundabout Project #c400035.

15. ARRA - Center/Pacific (Depot) Intersection Roundabout Project (c401012) – Authorization to Advertise and Award. (PW)

Assistant Director of Public Works/City Engineer C. Schneiter presented an oral report and responded to Council's questions.

SPEAKING FROM THE FLOOR EXPRESSING OPPOSITION AND/OR CONCERNS:

Mike Tomasi
John

SPEAKING FROM THE FLOOR EXPRESSING SUPPORT AND/OR CONCERNS:

Micah Posner
Reed Searle
Debbie Bulger

Action

Councilmember Mathews moved, seconded by Councilmember Robinson, to approve the plans and specifications for the American Recovery and Revitalization Act (ARRA)-funded Center/Pacific (Depot) Intersection Roundabout Project (c401012), and authorize staff to advertise for bids. The City Manager is hereby authorized and directed to execute the contract as authorized by resolution NS-27,563, with the additional direction that signs be upgraded to increasingly protect cyclists as soon as possible; and to adopt Resolution No. NS-28,190 appropriating funds and amending the FY 2010 budget in the amount of \$1,000,000 to reflect ARRA stimulus funding.

REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

Consent Agenda (continued)

16. ARRA - Center/Pacific (Depot) Intersection Roundabout Project (c401012) – Authorization to Advertise and Award. (Continued)

Councilmember Beiers moved, seconded by Councilmember Madrigal, to amend the motion to include raised pedestrian sidewalks. The motion FAILED by the following vote:

AYES:	Councilmembers Madrigal, Beiers.
NOES:	Councilmembers Lane, Mathews, Robinson; Vice Mayor Coonerty; Mayor Rotkin.
ABSENT:	None.
DISQUALIFIED:	None.

Action

The main motion carried unanimously.

16. Grant of Easement - County of Santa Cruz - East Zayante Road APN 074-012-07. (WT)

Resolution No. NS-28,191 was adopted authorizing the City Manager to execute a Grant of Easement to the County of Santa Cruz covering property located along East Zayante Road on APN 074-012-07.

17. Graham Hill Water Treatment Plant Improvements Project - Technical Review Services and Change Order No. 1. (WT)

Motion carried to ratify the agreement with HDR Engineering, Inc. (Walnut Creek, CA) for Technical Review services of the Graham Hill Water Treatment Plant Improvements Project, and to authorize the City Manager to execute Change Order No. 1 in the amount of \$25,005 for additional Technical Review services of the Graham Hill Water Treatment Plant Improvements Project.

End Consent Agenda

Note: Councilmember Madrigal left the meeting at 4:24 p.m.

REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
3:00 P.M. SESSION

Public Hearing

18. Ordinance No. 2010-09. Ordinance Amending Chapter 2.40.014 Pertaining to Meetings of Boards and Commissions. (CA)

Mayor Rotkin opened the public hearing at 4:25 p.m.

No members of the public spoke.

Mayor Rotkin closed the public hearing at 4:25 p.m.

Action

Councilmember Robinson moved, seconded by Councilmember Lane, to pass Ordinance No. 2010-09 for final adoption. The motion carried unanimously (Councilmember Madrigal absent).

General Business

19. Imagine Positive Change Program. (CN)

Jennifer Greene and Downtown Association Executive Director Chip presented oral reports and responded to Council's questions.

SPEAKING FROM THE FLOOR EXPRESSING SUPPORT AND/OR CONCERNS:

Marlene Majewska
Brad Snyder

SPEAKING FROM THE FLOOR EXPRESSING OPPOSITION AND/OR CONCERNS:

Mike Tomasi

Action

Councilmember Mathews moved, seconded by Vice Mayor Rotkin, to approve the donation and installation of converted parking meters on City sidewalks to be used as collection devices for the initial pilot phase of the Imagine Positive Change initiative, and to specify that the original pilot will include up to eight meters, that the City Council finds that they fall under the category of information/public art that has a 14-foot limit for certain proscribed activities around it, that the final design and language is subject to additional minor revision and refinement, and that the final location of the first eight meters should minimize further reductions of space for restricted activities and in no case should eliminate all such activities where they are currently permitted on any given block. The motion carried unanimously (Councilmember Madrigal absent).

REDEVELOPMENT AGENCY MEETING
 APRIL 13, 2010
 3:00 P.M. SESSION

General Business (Continued)

20. Council Meeting Calendar

The City Council reviewed the meeting calendar attached to the agenda and revised as necessary.

21. City Attorney Oral Report on Closed Session.

A. Labor Negotiations (Government Code §54956.6).

Lisa Sullivan—Negotiator

Employee Organizations—

1. Police Management
2. Police Officers' Association
3. SEIU—All Units
4. Operating Engineers-Supervisors
5. Operating Engineers-Managers
6. FIRE IAFF
7. Fire Management

Council received status reports, instructed the negotiator, and took no reportable action.

B. Real Property (Government Code §54956.8).

148 Walnut Avenue Property Acquisition (Joe Appenrodt - Owner)

APN 005-072-33

Bonnie Lipscomb-City Negotiator

Council did not discuss the above item.

212 Church Street Property Acquisition (Joe Appenrodt - Owner)

APN 005-048-12

Bonnie Lipscomb-City Negotiator

1520 K1 Pacific Avenue Kiosk (Renate Clock - Lessee)

No APN

Bonnie Lipscomb-City Negotiator

Council received status reports and instructed the negotiator.

REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
3:00 P.M. SESSION

General Business (Continued)

22. City Attorney Oral Report on Closed Session (Continued)

C. Conference with Legal Counsel– Anticipated Litigation (Government Code §54956.9).

Initiation of Litigation by City (1 case to be discussed)

1 case was discussed. Council took no reportable action.

D. Conference with Legal Counsel – Liability Claims (Government Code §54956.95)

1. Claimant: Wanda Fowler
2. Claimant: Gregory Peter Panos
3. Claimant: Ethan Shenkman (2 claims)
4. Claimant: Kathryn A. Capaldo

Claims Against: City of Santa Cruz

Claims 1 through 3 were not discussed. Council authorized settlement of claim 4.

E. Conference With Legal Counsel — Existing Litigation (Government Code §54956.9).

1. People v. Johnson, Santa Cruz County Superior Case No. SCT073906.

Council received status reports and took no reportable action.

22. Council Memberships in City Groups and Outside Agencies.

The Presiding Officer provided Councilmembers with the opportunity to update Council and the public regarding City Groups and Outside Agencies.

At 5:19 p.m. the City Council adjourned to a continued Closed Session and then to the 7:00 p.m. Session. The Redevelopment Agency adjourned to the 7:00 p.m. Session.

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060

MINUTES OF A REDEVELOPMENT AGENCY MEETING

April 13, 2010

7:00 P.M. SESSION

Mayor/Chair Rotkin called the meeting to order at 7:07 p.m. in Council Chambers.

Roll Call

Present: Councilmembers/Members Lane, Mathews, Beiers, Robinson, Vice Mayor/Vice Chair Coonerty (arrived 7:10 p.m.); Mayor/Chair Rotkin.

Absent: Councilmember Madrigal.

Staff: City Manager R. Wilson, City Attorney J. Barisone, City Clerk L. Brewer.

Presentation – Mayor’s Proclamation in Recognition of Jazz Appreciation Month, presented to Barney Greer, Barney and the Dinosaurs.

Presentation - Sister Cities Committee Hans Christian Andersen Writing Awards, presented by Bill Denevan.

Joint City Council and Redevelopment Agency Oral Communications

Michael Bethke invited Councilmembers and members of the public to attend the inauguration of Rotary Field at Santa Cruz High School Sunday, May 23, 2010 from 2:00 p.m. to 4:00 p.m.

Public Hearings

23. Medical Marijuana Ordinance Amending Title 6. (PL)

Action

Councilmember Lane moved, seconded by Councilmember Robinson, to continue this item to the meeting of April 27, 2010 at 7:00 p.m. The motion carried unanimously (Councilmember Madrigal absent).

REDEVELOPMENT AGENCY MEETING
APRIL 13, 2010
7:00 P.M. SESSION

Public Hearings (continued)

24. Emergency Ordinance Amending Section 21.03.020 Pertaining to Relocation Assistance in Cases of Temporary (Less than 90 Days) Displacement. (CA)

This item was deleted.

Adjournment — At 7:31 p.m., the Redevelopment Agency adjourned from the regularly scheduled meeting of April 13, 2010 to the next regularly scheduled meeting on April 27, 2010, for a closed litigation session at 1:30 p.m., in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m. and 7:00 p.m. in Council Chambers.

Approved

Mike Rotkin
Chair

Attest

Bonnie Lipscomb
Executive Director



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Economic Development

SUBJECT: 1520-K1 Pacific Avenue – Lease Agreement with Marilyn Strayer, dba Alfresco. (ED)

RECOMMENDATION: Resolution authorizing and directing the City Manager to execute a lease agreement and any amendments of a non-substantive nature, subject to the approval of the City Attorney, with Marilyn Strayer, dba Alfresco, for the premises located at 1520-K1 Pacific Avenue.

BACKGROUND: On March 26, 2003, Marilyn Strayer, dba Alfresco, was assigned the Lease Agreement between Lawrence Selman, dba Sushi Now!, and the City of Santa Cruz for the premises located at 1130-K2 Pacific Avenue. The lease was extended for an additional five-year term on March 25, 2008 and will expire on March 25, 2013.

Renate Clock, dba Li'l Coney Island, has given a ninety day notice that she will terminate the lease agreement between Renate Clock, dba Li'l Coney Island and the City of Santa Cruz by June 12, 2010 or at an earlier date if a new tenant is found.

Ms. Strayer, after learning of Ms. Clock's intention to close Li'l Coney Island, has expressed a desire to relocate Alfresco to the kiosk being vacated.

DISCUSSION: Ms. Strayer proposes to enter into a lease for the premises at 1520-K1 and terminate her lease for the premises at 1130-K2. She believes the location will be better for her business since she has been directly competing with New Leaf Market after the recent expansion of their prepared food, including a hot food and salad bar. She will continue Alfresco's current operations and menu which consists of Mediterranean inspired wraps, pitas, soups and salads.

The change in premises requires that a new lease agreement be executed. The term of the lease is five years, terminating on April 30, 2015. The monthly minimum rent is the greater of \$150 for the first year or 6% of sales, up to a maximum of \$500.00. The minimum rent is adjusted annually according to changes in the Consumer Price Index. The new lease differs from the current lease in that it prohibits the sale of the leasehold interest.

Ms. Strayer has been an excellent tenant of the City and has not been in default of her lease at any time. Staff recommends approval of the lease.

FISCAL IMPACT: The monthly minimum rent is the greater of \$150 or 6% of sales, up to a maximum of \$500.

Submitted by:
Bonnie Lipscomb
Director of Economic Development

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS: Resolution

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
AUTHORIZING AND DIRECTING THE CITY MANAGER TO EXECUTE A LEASE
AGREEMENT AND ANY AMENDMENTS THERETO OF A NON-SUBSTANTIVE
NATURE WITH MARILYN STRAYER, DBA ALFRESCO, FOR THE KIOSK
LOCATED AT 1520-K1 PACIFIC AVENUE

WHEREAS, the City of Santa Cruz is the owner of four commercial kiosks located on Pacific Avenue; and

WHEREAS, the kiosk located at 1520 K-1 is currently vacant; and

WHEREAS, Ms. Strayer wishes to terminate her lease for the kiosk located at 1130 K-2 and enter into a new lease for the premises at 1520 K-1, and

WHEREAS, Ms. Strayer has financial creditworthiness and has successfully operated her business in her current location; and

WHEREAS, authorization to execute the Lease Agreement requires approval of the City Council.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz that the City Manager is authorized and directed to execute the Lease Agreement and any amendments thereto of a non-substantive nature, subject to the approval of the City Attorney, with Marilyn Strayer, dba Alfresco for the kiosk located at 1520-K1 Pacific Avenue.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____

Mayor

ATTEST: _____

City Clerk



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Economic Development

SUBJECT: Fifth Amendment to the Amended and Restated Owner Participation Agreement By and Between the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz . (ED)

RECOMMENDATION: Resolution authorizing the City Manager to execute the Fifth Amendment to the Amended and Restated Owner Participation Agreement By and Between the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz, in a form to be approved by the City Attorney.

BACKGROUND: The City of Santa Cruz owns certain real property located on Mt. Hermon Road within the city limits of Scotts Valley. The 8.15 acre property was formerly located in the unincorporated area of Santa Cruz and used as an airport. The property was annexed into the City of Scotts Valley in 1996, and is currently located in a redevelopment project area. The property was subsequently identified by the Redevelopment Agency of the City of Scotts Valley (Agency) for commercial and residential development.

In 1995, the Agency and the City of Santa Cruz entered into an Amended and Restated Owner Participation Agreement (OPA) to effectuate the Redevelopment Plan for the Scotts Valley Redevelopment Project by providing for the development of the property owned by the City of Santa Cruz within the Scotts Valley redevelopment project area. The OPA had an initial term of five years and has been amended four times; three of the amendments were executed to extend the term of the option to purchase the property from the City of Santa Cruz by the Agency and the fourth amendment was executed to codify the terms and conditions regarding an appraisal to be conducted to establish the purchase price of the property.

DISCUSSION: The Agency and the City of Santa Cruz now wish to enter into a Fifth Amendment to the OPA to extend the term of the option for purchase and to clarify the manner in which the purchase price will be determined in the event the Agency elects to purchase the City of Santa Cruz-owned property. The proposed terms of the Fifth OPA Amendment are highlighted below.

Annual Payment: \$15,000 annually to the City of Santa Cruz to extend option term, for a total of \$75,000 over five years

Term: 5 years

Price: The baseline appraised value was established at \$8,525,000. The appraised value will be adjusted annually during the first three years to reflect the percentage increase in the U.S. Bureau of Labor Statistics Consumer Price Index. The City of Santa Cruz may elect for the fourth and fifth years under the OPA Fifth Amendment to use the adjusted baseline appraised value or to obtain a new appraisal (the cost of said appraisal shall be equally borne by both parties) which shall set the new purchase price.

FISCAL IMPACT: The City General Fund will receive approximately \$15,000 annually for each year Scotts Valley elects to extend the term of its option to purchase the city-owned land in Scotts Valley. The Fifth Amendment, if approved, is effective for five years. The City will receive approximately \$75,000 through 2015 if the City of Scotts Valley extends the term of their option for the full period allowable under the Fifth Amendment. If the City of Scotts Valley decides to purchase the property from the City during the option term, the City will receive a minimum of \$8,525,000 for the three city-owned parcels in Scotts Valley.

Submitted by:
Bonnie Lipscomb
Director of Economic Development

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS: Resolution

RESOLUTION NO. NS

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
AUTHORIZING THE CITY MANAGER TO EXECUTE THE FIFTH AMENDMENT TO
THE OWNER PARTICIPATION AGREEMENT BY AND BETWEEN THE
REDEVELOPMENT AGENCY OF THE CITY OF SCOTTS VALLEY AND THE CITY OF
SANTA CRUZ, IN A FORM ACCEPTABLE TO THE CITY ATTORNEY

WHEREAS, the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz are parties to an Amended and Restated Owner Participation Agreement pertaining to the disposition and development of certain real property owned by the City of Santa Cruz in Scotts Valley; and

WHEREAS, the Owner Participation has been amended four previous times and the current Amendment expires in April 2010; and

WHEREAS, both parties wish to enter into a Fifth Amendment to the Owner Participation Agreement to extend the term of the current option to purchase and to establish the terms of the future purchase price of the property owned by the City of Santa Cruz;

NOW, THEREFORE, BE IT RESOLVED by the City Council that the City Manager is hereby authorized to execute the Fifth Amendment to the Owner Participation Agreement By and Between the Redevelopment Agency of the City of Scotts Valley and the City of Santa Cruz, in a form acceptable to the City Attorney.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



CITY COUNCIL AGENDA REPORT

DATE: April 14, 2010

AGENDA OF: April 27, 2010
DEPARTMENT: Human Resources
SUBJECT: Liability Claims Filed Against City of Santa Cruz

RECOMMENDATION: Motion to reject liability claim a) California State Automobile Association, based upon staff investigation.

a. Claimant: California State Automobile Association (Lombardi)
Date of occurrence: 01/13/10
Date of claim: 03/18/10
Amount of claim: \$2,055.17

A large tree limb fell on insured's parked car.

Represented by itself.



CITY COUNCIL AGENDA REPORT

DATE: 03/15/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Parks and Recreation

SUBJECT: Parks and Recreation Commission Bylaws Revision. (PK)

RECOMMENDATION: Motion to adopt the amended Bylaws setting forth said amendments to the structure of the Parks and Recreation Commission.

BACKGROUND: The Parks and Recreation Commission is a seven-member advisory body appointed by the City Council. The Commission advises the City Council on all matters concerning public parks, open space, recreational facilities, programs, and services.

DISCUSSION: At the March 1, 2010 Parks and Recreation Commission meeting, Commissioners voted unanimously to recommend that City Council authorize a change to the Commission's bylaws to reflect the fact that the Commission will meet every other month (January, March, May, July, September and November) rather than monthly. The Commission recognized Council's efforts to streamline various Commissions and Committees over the last few years and supported staff's recommendation to reduce the frequency of Parks and Recreation Commission meetings. The Commission acknowledged that there may be times during the year when it may be necessary to hold a special meeting. The current bylaws outline the procedures for special meetings of the Parks and Recreation Commission. If times change and the Commission sees a need to meet more frequently on a regular basis, they can request that the bylaws be changed.

FISCAL IMPACT: Small savings in staff time.

Submitted by:
Dannettee Shoemaker
Director of Parks and Recreation

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS:

Resolution
Parks and Recreation Commission meeting minutes March 1, 2010
Amended Bylaws

RESOLUTION NO. NS-

RESOLUTION PERTAINING TO THE PARKS AND RECREATION
COMMISSION BYLAWS.

WHEREAS, the City of Santa Cruz Parks and Recreation Commission advises the City Council on formulating and implementing policy as it pertains to parks and recreation facilities and programs; and

WHEREAS, the Parks and Recreation Commission recognizes there is a need to meet on a regular basis but only every other month (January, March, May, July September and November) as opposed to once a month which is what the bylaws currently state.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz that the bylaws of the Parks and Recreation Commission shall be changed to reflect the meeting schedule as being every other month or January, March, May, July, September and November.

PASSED AND ADOPTED this 27th day of April , 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



Parks and Recreation Commission

Regular Meeting Agenda

4:00 p.m. – Monday, March 1, 2010

Louden Nelson Community Center

Room 1

301 Center Street, Santa Cruz CA

MINUTES ARE UNOFFICIAL UNTIL APPROVED BY AN ADVISORY BODY.

CALL TO ORDER – Chair Bertuca

ROLL CALL – Chair Bertuca, Commissioners, Andrews, Baskin, Canaris, Reyes, Samuelson and Shuman.

ROLL CALL

Present: Commissioners Bertuca, Commissioners, Baskin, Canaris, Reyes, Samuelson and Shuman.

Absent: Commissioner Andrews with notification.
Commissioner Reyes arrived at 4:08 pm

Staff: Dannettee Shoemaker, Director of Parks and Recreation
Steve Hammack, Parks Superintendent
Leslie Keedy, Urban Forester
Ali MacBird, Office Supervisor

ORAL COMMUNICATIONS – None.

ANNOUNCEMENTS –

Dannettee Shoemaker announced the following:

The Coastal Commission is meeting in Santa Cruz this month. They will be discussing Arana Gulch. A reception will be held Wednesday March 10 from 6-8 pm. (invited Commissioners).

The Clam Chowder Cook Off was a success and had 77 teams with revenue around \$60k which included kit sales and merchandise. Dannettee thanked Commissioner Reyes and the Boardwalk.

Teen Center News: O'Neils Surf Shop announced that they will match any and all donations received. Parks and Recreation is receiving checks in the mail daily and have raised about \$7k so far.

An email was passed out from Helga Denning (Frederick St neighbor) regarding dogs off-leash at Frederick St Park. Dannettee answered questions about the dog park. Commissioners discussed the park and their views of usage. Dannettee mentioned the other off-leash areas that are currently working well.

Dannettee announced that, after clarifying with our City Clerk, the January Commission minutes should reflect Commissioner Reyes as Disqualified rather than Abstain from the Prop 84 item.

1. Motion to Approve the Minutes of the January 4, 2010 Meeting

Item #1 moved until after the Teen Center Tour.

PRESENTATIONS – None.

CONSENT AGENDA – None

PUBLIC HEARINGS – None

GENERAL BUSINESS -

2. Teen Center Tour

Commissioners toured the new Teen Center with Supervisor Robert Acosta.

1. Motion to Approve the Minutes of the January 4, 2010 Meeting

Commissioner Baskin moved, seconded by Commissioner Samuelson to approve the minutes. The motion carried by the following vote:

AYES: Commissioners Baskin, Bertuca, Canaris, Reyes, Shuman and Samuelson.

NOES: None.

ABSENT: Andrews.

DISQUALIFIED: None.

ABSTAIN: None.

3. Election of Officers

Commissioner Samuelson moved to nominate Commissioner Baskin as Chair , seconded by Commissioner Bertuca. The motion carried by the following vote:

AYES: Commissioners Baskin, Bertuca, Canaris, Reyes, Shuman and Samuelson.

NOES: None.

ABSENT: Andrews.

DISQUALIFIED: None.

ABSTAIN: None.

Commissioner Samuelson moved to nominate Commissioner Canaris as Vice Chair , seconded by Commissioner Baskin. The motion carried by the following vote:

AYES: Commissioners Baskin, Bertuca, Canaris, Reyes, Shuman and Samuelson.

NOES: None.

ABSENT: Andrews.

DISQUALIFIED: None.

ABSTAIN: None.

4. Parks and Recreation Commission Meeting Schedule

RECOMMENDATION: That the Parks and Recreation Commission discuss the possibility of meeting every other month (March, May, July, September and November) rather than monthly and forward a recommendation to City Council.

Dannettee Shoemaker gave background information on this item.

Commissioners discussed the impacts of changing the meeting schedule.

Commissioner Reyes motioned to recommend to Council that they revise the by laws to reflect the revised schedule with the Parks and Recreation Commission meeting every other month in January, March, May, July, Septmeber and November, seconded by Commissioner Samuelson. The motion carried by the following vote:

AYES: Commissioners Baskin, Bertuca, Canaris, Reyes, Shuman and Samuelson.

NOES: None.

ABSENT: Andrews.

DISQUALIFIED: None.

ABSTAIN: None.

5. Staffs' Oral Report –

- A. CIP Review – Steve, page 3
Steve Hammack reviewed the line items with the Commissioners.
- B. Proposition 84 – Steve
Steve Hammack gave an update to the Grant application for State Proposition 84 that was submitted.
- C. Heritage Tree Ordinance Update – Steve/Leslie
Steve Hammack gave an update on the status of the Heritage Tree Ordinance.
- D. Public Opinion Poll – page 9
Dannettee Shoemaker gave an overview of the polling process and the latest poll results.

Commissioners discussed the poll results and options.

6. Information Items

- A. City Council Meeting Update – Dannettee Shoemaker, Oral Report
- B. Council Financial Task Force – Commissioners Reyes/Shuman
- C. Open Tree Permits
- D. Council Budget Calendar

SUBCOMMITTEE/ADVISORY BODY ORAL REPORTS

ITEMS INITIATED BY MEMBERS FOR FUTURE AGENDAS

ADJOURNMENT

6. The Parks and Recreation Commission adjourned at 5:40 p.m. from the regularly scheduled meeting of March 1, 2010 to the next regularly scheduled meeting on **April 12, 2010** at 4:00 p.m. in Council Chambers.

Respectfully Submitted:

Ali MacBird

Chair Bertuca



BYLAWS

of the

Parks and Recreation Commission

City of Santa Cruz, California

Under authority of applicable statutes of the State of California, and the City Charter of the City of Santa Cruz, California, for the purpose of establishing rules and regulations governing the organization and procedures of the Parks and Recreation Commission of the City of Santa Cruz, CA

Adopted December 1, 2003

Amended by Commission March 1, 2010

Amended this 23rd day of March, 2010

Approved by City Attorney 3/15/2010

Approved by City Council 3/23/2010

APPROVED:

Chair David Green Baskin

Carol Canaris

Connie Bertuca

Richard Andrews

Jack Samuelson

Kris Reyes

Hilary Bryant Shuman

ATTEST:

Ali MacBird, Staff

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Parks and Recreation Commission Bylaws

ARTICLE I – NAME AND/OR AUTHORITY

The Name of this organization shall be the Parks and Recreation Commission of the City of Santa Cruz, California; hereinafter referred to as the Commission, or the Advisory Body.

ARTICLE II – PURPOSE

The Parks and Recreation Commission will advise City Council on matters pertaining to public facilities including neighborhood and regional parks, the greenbelt, museum, wharf, urban forest, golf course and medians after receiving public input. The Commission will also advise City Council on matters pertaining to recreation programs and facilities including youth, teen, adult, and senior activities, arts and cultural programs, beaches and pools, and other community facilities.

ARTICLE III – DUTIES AND RESPONSIBILITIES

The Parks and Recreation Commission shall have the ability, as vested by the City Council, and be required to:

- Recommend to the City Council, after public input, the adoption, amendment or repeal of ordinances, resolutions, or requirements pertaining to the preservation, enhancement and advancement of the viability and attractiveness of the Parks and Recreation Programs and Facilities;
- Make recommendations to the City Council concerning programs policies and decisions relating to trees under Title 9, Chapter 9.56 Preservation of Heritage Trees and Heritage Shrubs and Title 13, Chapter 13.30;
- Undertake studies in the area of Parks and Recreation;
- Act in an advisory capacity to the City Council in all matters pertaining to public recreation, including playgrounds, music and entertainment;
- Receive complaints pertaining to Parks and Recreation Programs and Facilities;
- Review and make recommendations to the City Council pertaining to the annual budget of the Parks and Recreation Department during its preparation;
- Review, monitor, and make long-range recommendations concerning the planning of a program for parks and recreation for the inhabitants of the city, promote and stimulate public interest therein, and to that end, solicit to the fullest extent possible the cooperation of school authorities and other public and private agencies interested therein;
- Review for comment qualified permit parking requests adjacent to City parkland or other public facility pursuant to Municipal Code 10.41.040, Vehicles and Traffic, Citywide Permit Parking;
- Approve park hours of operation pursuant to Municipal Code 13.04.011, Parks and Recreation, Hours of Operation;
- Hear and decide matters relating to Parks and Recreation Programs and Facilities; and
- Accept money, personal property or real estate donated to the city for park or recreational purposes, subject to the approval of the City Council.
- Perform other duties as may from time to time be prescribed by the City Council.

ARTICLE IV – MEMBERSHIP

Section 1. Membership

The Parks and Recreation Commission shall consist of seven Parks and Recreation Commission members, hereinafter referred to as members.

Membership, term of office, and procedures for removal of members and the filling of vacancies shall be as established by City Ordinance or by the City Council.

Section 2. Qualifications

The seven members of the Parks and Recreation Commission shall be qualified electors of the City of Santa Cruz pursuant to 2.40.011 of the Municipal Code and City Council Policy, Section 5.

Section 3. Application for Membership

Prospective members shall file an application in the office of the City Clerk.

Section 4. Method of Appointment

The Parks and Recreation Commission shall consist of seven (7) members, appointed by the City Council and serving thereafter at the pleasure of the Council.

Section 5. Good Standing and Reporting of Absences

Councilmembers shall receive annual attendance reports prepared in the City Clerk's Department. Absences will be identified as "with notification" and "without notification. An absence is considered as "with notification" if the member notifies the chairperson or the staff prior to the meeting. If there has been no prior notification, the absence is considered "without notification." It is important to notify staff of any absences for the purposes of determining a quorum. Advisory body members are expected to attend meetings regularly.

Members who serve on advisory bodies, which are scheduled to meet seven to twelve times per year, are allowed three absences per year. Members who serve on Advisory Bodies which meet six or less times per year are allowed one absence per year.

It is the responsibility of staff of an advisory body to bring serious attendance issues to the attention of the Mayor or City Clerk prior to reaching the limit, if possible. If either through study of the annual attendance report or through other channels, the Mayor learns that a member has more than the allowable number of absences, the Mayor may notify the member or chairperson that action may be initiated by City Council to remove the member from the advisory body. The Mayor may choose to postpone or withhold notification to City Council in unusual circumstances: for example, if the member is actively performing work for the advisory body outside of the regular meetings or is involved in subcommittee work.

Section 6. Termination

After three meetings following appointment to the Advisory Body, each member shall be subject to removal by motion of any Councilmember, adopted by at least four affirmative votes.

Section 7. Ex-Officio Membership "Optional"

The Parks and Recreation Commission may find that, because of the complexity of its work, it is desirable to add member(s) at-large to the Advisory Body to serve as non-voting ex-officio members to lend other opinions or expertise to the work of the Advisory Body. The City Council will authorize the Chair of the Advisory Body to nominate member(s)-at-large for Council approval to be non-voting ex-officio members for a determined period of time.

ARTICLE V – TERM OF OFFICE

Section 1. Term

Term of office for each member shall be four years. A member may be appointed to complete an unexpired term. A member may continue to serve until his/her successor has been appointed.

Section 2. Membership Year

A membership year shall be four years, expiring on January first, unless a shorter term is prescribed by the appointing City Councilmember at the time of appointment; however, that if a replacement has not been appointed and qualified as of the January first expiration date, the board or commission member shall continue to serve until a successor has been appointed and qualified.

Section 3. Length of Term

A member shall not serve more than two consecutive full four-year terms. Upon completion of a member's eighth consecutive year of service, that member will be ineligible for reappointment for a period of two years. Members who have six years or less at the time their term expires are eligible for reappointment.

Section 4. Dual Service

No member shall be eligible to serve on two Advisory Bodies unless one is established for less than 13 months.

ARTICLE VI – OFFICERS AND ELECTIONS

Section 1. Officers

Officers of the Advisory Body shall consist of a Chair and Vice Chair.

Section 2. Election of Officers

As soon as is practicable following the first day of January of every year, there shall be elected from among the membership of the Advisory Body a Chair and Vice Chair.

Section 3. Term of Office

The term of office for the Chair and Vice Chair is one calendar year. Officers may not serve in the same position for more than two consecutive years.

Section 4. Nominations

The Chair will open the floor to nominations. Any member may nominate a candidate from the membership for the position of Chair or Vice Chair; nominations need not be seconded.

A member may withdraw his/her name if placed in nomination, announcing that, if elected, s/he would not be able to serve; but s/he shall not withdraw in favor of another member.

Once the nominations are complete, the Chair will ask for a motion to close the nominations; a second of, and vote on, the motion is required.

The Chair then declares that it has been moved and seconded that the nominations be closed, and the members proceed to the election.

Section 5. Voting

Voting may be by voice vote or by roll call vote.

The candidate who receives a majority of the votes is then declared to be legally elected to fill the office of Chair, and will immediately chair the remainder of the meeting.

The same procedure is followed for the election of Vice Chair.

Section 6. Vacancy of an Officer

Should a vacancy occur, for any reason, in the office of Chair or Vice Chair prior to the next annual election, a special election shall be held to fill the vacant office from among the membership. That member shall serve until a new appointment has been made.

Section 7. Removal of Elected Officers

The Chair or Vice Chair may be removed by a majority vote of the full Advisory Body at a regularly scheduled meeting of the Advisory Body, when all appointed members are present, or at a special meeting convened for that purpose at which a quorum is present. Any officer removed ceases to hold the office once the vote has been tallied and announced. If the Chair is removed, the Vice Chair shall become the new Chair. An election for the Vice Chair shall then be agendized for the next meeting.

Section 8. Duties of the Chair

The Chair shall preside at all regular meetings and may call special meetings. The Chair shall decide upon all points of order and procedure during the meeting; his/her decision shall be final unless overruled by a vote of the Advisory Body, in compliance with Article IX, Section 2, "General Conduct of Meetings." The Chair may not make motions, but may second motions on the floor. The Chair acts as primary contact for staff and shall represent the Advisory Body before City Council whenever the Advisory Body or Council considers it necessary. The Chair and staff shall jointly set the meeting agenda.

Section 9. Duties of the Vice Chair

The Vice Chair shall assume all duties of the Chair in the absence or disability of the Chair.

Section 10. Duties of the Acting Chair

In case of absence of both the Chair and the Vice Chair from any meeting, an Acting Chair shall be elected from among the members present, to serve only during the absence of the Chair and Vice Chair.

ARTICLE VII – STAFF SUPPORT

Section 1. Staff

Staff support and assistance is provided, but advisory bodies do not have supervisory authority over City employees. While they may work closely with advisory bodies, staff members remain responsible to their immediate supervisors and ultimately to the City Manager and Council.

The Director of Parks and Recreation shall designate appropriate staff to act as staff person(s) to assist and support the Advisory Body. Staff shall attend all regular and special Advisory Body meetings. Staff shall be responsible for coordination of such reports, studies, and recommendations as are necessary to assist the Advisory Body in the conduct of its business according to City Council policy and the Brown Act. Staff may enlist the assistance of other departments as required. Staff shall be responsible for all public notification regarding all regular and special Advisory Body meetings.

Staff shall record the minutes of the meetings in accordance with the guidelines established in the "Preparation of Minutes" section of the City Councilmembers' Handbook, shall supervise volunteers and interns, shall work closely with the Chair between meetings, shall make recommendations, prepare reports and proposals to the Advisory Body, may represent the Advisory Body at other meetings, presentations, and other public functions as requested, and shall perform administrative tasks.

Staff shall be responsible for the maintenance of proper records and files pertaining to Advisory Body business. Staff shall receive and record all exhibits, petitions, documents, or other materials presented to the Advisory Body in support of, or in opposition to, any question before the Advisory Body. Staff shall sign all notices prepared in connection with Advisory Body business, shall attest to all records of actions, transmittals, and referrals as may be necessary or required by law, and shall be responsible for compliance with all Brown Act postings and noticing requirements.

Section 2. Staff Relationship to the Advisory Body

Given limited staff resources, the Chair or individual members shall not make separate requests of staff without approval of the Advisory Body. If a member has a research or report request, it shall be brought to the Advisory Body for discussion, consideration, and recommendation prior to making the request of staff. If not approved by the Advisory Body, the individual member shall be responsible for his/her own research or report.

Staff and the Chair shall jointly set the meeting agenda.

ARTICLE VIII – MEETINGS

Section 1. Time and Location of Meetings

The Advisory Body will hold its regular meeting on the first Monday of every other month (January, March, May, July, September, November) which shall begin at 4:00 p.m. in the City Council Chambers and will adjourn no later than 6:00 p.m., unless the Chair, with concurrence of the Advisory Body, extends the time of adjournment.

If the scheduled date for a regular meeting falls on a holiday, such meeting shall be rescheduled in accordance with Council policy.

Section 2. Cancellation

If a majority of the membership deems it necessary or desirable, a scheduled regular meeting may be cancelled or rescheduled upon giving notice, unless a public hearing has previously been noticed.

Section 3. Special Meetings

The Chair of the Advisory Body, staff, or a majority of the membership of the Advisory Body may call a special meeting. Notice of such meeting shall state the purpose or the business to be transacted during such special meeting. No other business may be transacted at such special meeting other than as stated in the notice. Oral Communications are not required at special meetings as long as a statement appears on the agenda identifying that there will be no Oral Communications, but that members of the public will have the opportunity to address the Advisory Body on item(s) on the agenda.

ARTICLE IX – CONDUCT OF MEETINGS

Section 1. Compliance with the Brown Act and Council Policies

All regular, special, and adjourned meetings of the Advisory Body shall be open meetings to which the public and the press shall be admitted in compliance with the Brown Act. Meetings will be held at City facilities which are accessible to persons with disabilities.

Section 2. General Conduct of Meetings

Points of order and conduct, including those not addressed by these Bylaws, shall be settled by the Chair, unless overruled by a majority vote of the Advisory Body. Points of order and conduct shall comply with the Brown Act, these Bylaws, and the City Councilmembers' Handbook. The Chair will consult with staff as necessary. Unresolved issues shall be referred to the City Attorney and continued to a future meeting.

Section 3. How Items Are Placed on the Agenda

A request to have an item placed for consideration on a future agenda may be made by staff, any Advisory Body member or a member of the public. The Chair and staff will consider the validity (within the approved scope of work) and urgency of the request and determine when and if that item should be placed on an Advisory Body agenda. Issues can be referred to an advisory body by the City Council and may have time sensitive deadlines. The items must comply with the procedures in Article XII, Section 1, "Agenda Reports to Advisory Body."

Section 4. Quorum

A quorum of the Parks and Recreation Commission shall consist of four (4) members, whether or not there are vacancies on the Advisory Body.

Section 5. Absence of a Quorum

In the absence of a quorum at any meeting, such meeting shall be adjourned to the next regular meeting date by the Chair, Vice Chair, or staff.

A meeting may be declared adjourned for lack of a quorum after a 15-minute period has elapsed from the scheduled time of the start of the meeting. A meeting may also be declared adjourned in advance, if absence notifications received by staff provided for lack of a quorum. Adjournment may be declared by any member or staff.

Section 6. Agenda

The Chair and staff shall jointly set the meeting agenda and its format shall conform to the template set by Council Policy.

Section 7. Order of Business

The Chair or a majority vote of the Advisory Body may change the order of business.

ARTICLE X – MOTIONS

Section 1. Call for Motion

Upon conclusion of preliminary discussion, any member other than the Chair may place a motion on the floor. The motion shall contain the proposed action.

Section 2. Seconding a Motion

The Chair shall receive all motions and shall call for a second to each motion. The Chair may second a motion.

Section 3. Lack of a Second

If, after a reasonable time, no second has been made, the motion shall be declared dead for lack of a second, and the Chair shall state this. This shall not be considered an action of the Advisory Body and shall not be included in the minutes.

Section 4. Discussion/Debate

After a motion has been made and seconded, the Chair shall call for a discussion of the question. All discussion shall be limited to the motion on the floor. At the close of the discussion, the Chair shall put the matter to a vote.

Section 5. Time Limits on Discussion/Debate

The Chair may, at his/her discretion, limit debate of any motion; except that each member shall have the opportunity to speak.

Section 6. Amending a Motion

A motion to amend may be made by any member to revise a motion on the floor; but it cannot be a freestanding motion on its own, nor can it substitute for a main motion. The motion to amend must be voted upon, unless the maker and the second accept it as a friendly amendment, and, if it passes, it then becomes part of the main motion.

Section 7. Withdrawing a Motion

Any motion may be withdrawn by the maker and the second and shall not be included in the meeting minutes.

Section 8. Motion to Table

A motion to table may be made to suspend consideration of an item that appears on a meeting agenda for reasons of urgency or to end an unproductive discussion. A motion to table is not in order when another member has the floor. A motion to table requires a second, is not debatable, is not amendable, requires a majority vote for passage, and, if adopted, cannot be reconsidered at the meeting at which it is adopted. Members will refrain from using a motion to table as a means of capriciously limiting debate among members, to suppress a minority of the Advisory Body, or to avoid public input on an agenda item under consideration by the Advisory Body.

Section 9. Results of Voting

The Chair shall state the results of each vote, e.g., "The motion passes by a vote of five to two."

ARTICLE XI – VOTING

Section 1. Statements of Disqualification

Section 607 of the City Charter states that "...All members present at any meeting must vote unless disqualified, in which case the disqualification shall be publicly declared and a record thereof made." No member may abstain from voting on any item, except on the approval of the minutes, when that member was absent.

The City of Santa Cruz has adopted a Conflict of Interest Code, and Section 8 of that Code states that “no person shall make or participate in a governmental decision which s/he knows or has reason to know will have a reasonably foreseeable material financial effect distinguishable from its effect on the public generally.”

Any member who has a disqualifying interest on a particular matter shall do all of the following:

- 1) Publicly identify the financial interest that gives rise to the conflict of interest or potential conflict of interest in detail sufficient to be understood by the public, except that disclosure of the exact street address of a residence is not required;
- 2) Recuse himself or herself from discussing and voting on the matter, or otherwise acting in violation of government code Section 87100;
- 3) Leave the room until after the discussion, vote, and any other disposition of the matter is concluded unless the matter has been placed on the portion of the agenda reserved for uncontested matters;
- 4) Notwithstanding paragraph 3, a public official may speak on the issue during the time that the general public speaks on the issue.

Any question regarding conflicts of interest shall be referred to the City Attorney.

Section 2. Voice Vote

All questions shall be resolved by voice vote. Each member shall vote “Aye” or “No” and the vote shall be so entered into the minutes, noting the vote of each member. A member may state the reasons for his or her vote, which reasons shall also be entered into the minutes of the meeting. All members including the Chair shall vote on all matters, except where s/he has a disqualifying interest.

Section 3. Roll Call Vote

Any member may request a roll call vote, either before or immediately after a voice vote. A roll call vote shall be taken without further discussion. The Advisory Body staff shall call the roll and each member shall state his/her vote for the record.

Section 4. Sealed Ballot Votes

No Advisory Body shall take a sealed ballot vote in open session.

Section 5. Adoption of

Adoption of a motion shall be made by a simple majority of the members present, except as otherwise provided. The Chair shall restate the vote for the record, e.g., “The motion is approved by a vote of five to two.”

Section 6. Tie Votes

Tie votes will be resolved as follows:

Statement of Disqualification: A tie vote resulting from a Statement of Disqualification of one or more members, with no members absent and no vacancies on the Advisory Body, shall constitute a defeat of the motion.

Absence: A tie vote during the absence of one or more members, or when there is a vacancy on the Advisory Body, shall cause the item to be automatically continued to the next meeting; except that, as to matters on which action must be taken on a date prior to the next meeting, a tie vote shall constitute a denial of the requested action.

Successive Tie Vote: A tie vote at the next meeting on a matter that has been continued as a result of a tie vote shall constitute a denial of the appeal or defeat of the motion.

ARTICLE XII – REPORTS

Section 1. Agenda Reports to Advisory Body

All agenda items require a written report or an oral report. Written reports serve as the analysis, detail, history, and justification for each agenda item. Oral and written reports shall include recommendation(s) and background. If a report is initiated by an Advisory Body member, a draft of that report shall be provided to staff for formatting at least 10 business days prior to the meeting. Staff shall then format reports to be consistent with content, style, and formatting of City Council agenda reports. Items initiated by a committee shall be processed in the same manner. Draft reports not submitted in a timely manner shall be placed on a future agenda.

Section 2. Committee Reports

Committee reports may be verbal or written and may be accompanied by written documentation.

Section 3. Preparation of Advisory Body-Generated City Council Agenda Reports

All resolutions and recommendations adopted by the Advisory Body and addressed to the City Council shall be delivered to the Mayor as soon as possible. If the action requests City Council action, the item shall be placed on a future City Council agenda. Agenda reports to the City Council from the Advisory Body shall be written reports consistent with content, style, and formatting of City Council agenda reports.

Additionally, the agenda report shall include a section called analysis, which includes the pros, cons, and foreseeable consequences of the recommendation(s). In the event that staff and the Advisory Body disagree, an analysis of both recommendations shall be included.

ARTICLE XIII – RECORD KEEPING

Section 1. Maintenance of Records

All records shall be maintained according to the City of Santa Cruz Records Retention Schedule.

Section 2. Action Agenda

Action agendas are required for Standing Advisory Bodies as referenced in Council policy 5.14. An action agenda is an unofficial record of the meeting and shall consist of attendance, meeting start and adjourn time and a brief description of action taken. The action agenda shall be made available online within four working days of the meeting.

Section 3. Minutes

Action-only minutes will be produced for all Advisory Body meetings in the same format as that used for City Council meetings. Advisory Body members who want a particular comment

included in the minutes must state “for the record” before making such comment. Minutes shall be reviewed, corrected as appropriate, and or amended and approved by the Advisory Body at a subsequent meeting. Minutes are a permanent document and shall be maintained in hard copy in addition to an electronic version.

Subcommittee reports presented orally in a meeting shall be summarized in the minutes.

Section 4. Audio and Video Recording of Meetings

Proceedings for all Advisory Body meetings shall be recorded on CDs/DVDs whenever possible. The electronic media shall be retained for one year pursuant to the City of Santa Cruz Records Retention Schedule.

As appropriate and/or when requested by the Advisory Body or City Council, a meeting of the Advisory Body may be video recorded or televised.

Members of the public have the right to make recordings of a meeting without disrupting the proceedings under any circumstances.

ARTICLE XIV – COMMITTEES

Section 1. Ad Hoc Committees

Ad hoc committees are established by an Advisory Body to gather information or deliberate on issues deemed necessary to carrying out the functions and purpose of the Advisory Body. Ad hoc committees generally serve only a limited or single purpose, are not perpetual, and are dissolved once their specific task is completed. An ad hoc committee shall be less than six months in term and shall have fewer members than a simple majority of the membership of the appointing Advisory Body. Ad hoc committees shall bring back information to the Advisory Body in either oral or written form.

Following ad hoc committee input, the Advisory Body shall then discuss, deliberate, and make recommendations on the designated issue, thereby providing the public with the opportunity to participate in the decision-making process. This shall take place in the presence of a quorum of the Advisory Body at a properly noticed public meeting.

Ad hoc committees shall not be subject to the Brown Act. City staff shall not be required to be present at ad hoc committee meetings. All ad hoc committees shall provide a final report to the Advisory Body in lieu of minutes.

Section 2. Standing Committees

Standing committees are bodies established to gather information or deliberate on issues deemed necessary to carrying out the functions and purpose of the Advisory Body. Standing committees are ongoing in nature and are created to deal with issues and make decisions on behalf of the Advisory Body. The public has a right to participate in this process. Standing committees are subject to the Brown Act and staff will provide only such support as to ensure such compliance.

Section 3. Staff Support to Committees

City staff shall normally not be required to attend or provide support for standing or ad hoc committee meetings, unless directed by the department head. All ad hoc committees shall

provide a final report to the Advisory Body in lieu of minutes. All standing committees shall provide reports, no less than quarterly, to the Advisory Body.

Section 4. Appointments

The Commission may establish Standing Subcommittees and Temporary Subcommittees in accordance with Council Policy 5.12. The Chair of the Advisory Body may designate or solicit participation for standing and ad hoc committees.

Section 5. Committee Meetings

All standing or ad hoc committee meetings shall be held upon call of the Committee Chair.

ARTICLE XV – AMENDMENTS

A majority of the full membership of the Advisory Body may amend these bylaws, subject to the approval of the City Council.

ARTICLE XVI – ADOPTION OF BYLAWS

Immediately upon favorable vote of not less than four sevenths (4/7) of the full membership of the Parks and Recreation Commission of the City of Santa Cruz and approval of the City Council, these Bylaws shall be in full force and effect. Any and all previously adopted bylaws are hereby superseded.

These Bylaws shall not be considered or construed as superseding any ordinance or directive of the City Council of the City of Santa Cruz, nor shall they preclude the preparation and adoption of further procedural manuals and policies by which the Advisory Body may direct its activities.

Approved: _____
Chair

Attest: _____
Staff



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Planning and Parks and Recreation Department

SUBJECT: Proposition 84 Urban Greening Planning Grant Application. (PL)

RECOMMENDATION: Resolution authorizing the City Manager to submit a grant application for the Urban Greening Planning Grant Program under the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) and approving contract for the firm Design, Community and Environment (DC&E) to prepare an Urban Greening Plan per the grant requirements.

BACKGROUND: California voters passed the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) on November 7, 2006. Proposition 84 added Division 43, Chapter 9, Section 75065(a) to the Public Resources Code, authorizing the Legislature to appropriate up to \$17.5 million for the purpose of creating urban greening plans that will serve as the master document guiding and coordinating greening projects in the applicant's jurisdiction.

Chapter 13, Statutes of 2008 (SB 732 Steinberg) added to Division 43 to the Public Resources Code and established the Strategic Growth Council (SGC). One of the many goals of the SGC is to improve California's urban areas by advocating for and supporting development of greener (more vegetated) public spaces.

Because of the built-out nature of California's urban areas, the Urban Greening Planning Program will provide funds to assist entities in developing a master urban greening plan that will ultimately result in projects to help the State meet its environmental goals and the creation of healthy communities. "Urban Greening" is defined by the Strategic Growth Council as "a community-based effort to plan, plant, care, and manage flora, structures and spaces, which lead to increased forest canopy, reduced storm water runoff, improved air and water quality, energy conservation, open space and ultimately, more sustainable communities."

DISCUSSION: The proposed Urban Greening Plan will build on the City's existing programs, look for further opportunities for greening, as well as include the development of an Urban Forest Master Plan.

An Urban Forest Master Plan and the long-term development of an increased urban forest will significantly help in meeting the goals of the City's existing environmental programs. The benefits include: the reduction of urban runoff and pollutants into our storm drains; improved air and water quality; and reduction in pavement surface temperatures and reduced heat island

effects through tree absorption rates. Other benefits include aesthetically improving the commercial business corridor and residential neighborhoods, lowering energy costs, reducing noise pollution, providing beauty and natural habitat in an urban setting, and calming traffic for community members.

The grant application will include letters of participation and support from community partners representing a diversity of interests. The creation of a community-based Urban Greening Plan will leverage and strengthen existing working relationships with community groups including environmental organizations, neighborhood associations and local businesses. The development of the Urban Greening Plan will include a facilitated public outreach component.

The firm DC&E has worked extensively with the City Planning Department on the development of the draft General Plan 2030. DC&E prepared the background reports for the Community Design and Land Use Elements and helped craft the goals, policies and programs for these sections, including the landscape and streetscape requirements in the Community Design Element. They also aided in the development of the proposed land use plan, developed the build out scenarios for the General Plan 2030, and have expert knowledge of the City, having inventoried every parcel for land use, vacancy and population. In addition, DC&E brings to the project a staff that has deep experience in urban forestry, landscape architecture and LEED development.

Based on the above, staff determined that DC&E is uniquely compatible for this project as they have very expert and specific knowledge of the City and the proposed General Plan 2030, and their key staff for this project are distinctively qualified.

With Council's authorization, the City will apply for a \$200,000 grant for the development of an Urban Greening Plan. Approximately \$150,000 would pay for the firm Design, Community and Environment (DC&E) to complete the Plan, and \$50,000 would be used to cover City staff time and resources. A contract for DC&E is attached for Council's review as well as DC&E's statement of qualifications related to this project. The application for the grant will be done at no cost. The grant application is attached and is due for submittal to the State on April 30, 2010.

As lead author of the Urban Greening Plan, DC&E's work will include: an analysis of the City's existing environmental programs; recommendations for further greening opportunities; an inventory of the urban tree canopy on public streets and park areas; facilitation for a public involvement process; and the total development of the Urban Greening Plan to include an Urban Forestry Master Plan. DC&E will complete all GIS mapping, writing and graphic production for the plan. A contract for DC&E is attached for Council's review as well as DC&E's statement of qualifications related to this project.

It is anticipated that City staff will assist by providing professional expertise from the City's Urban Forester and by working with DC&E on the refinement of the plant palette, the review of interim products, support in planning for public meetings, and providing input to DC&E during the plan preparation. Staff will prepare the CEQA document at the end of the process. The final product and environmental determination will return to the Council for their review and approval.

FISCAL IMPACT: None.

Prepared by:
Michelle King
Senior Planner

Submitted by:
Alex Khoury
Acting Planning Director

Submitted by:
Dannettee Shoemaker
Director of Parks and Recreation

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS:
Resolution - Urban Greening Planning Grant
DC&E Statement of Qualifications

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
APPROVING THE APPLICATION FOR GRANT FUNDS FOR THE URBAN GREENING
PLANNING GRANT PROGRAM UNDER THE SAFE DRINKING WATER,
WATER QUALITY AND SUPPLY, FLOOD CONTROL, RIVER AND COASTAL
PROTECTION BOND ACT OF 2006 (PROPOSITION 84)

WHEREAS, the Legislature and Governor of the State of California have provided funds for the program shown above; and

WHEREAS, the Strategic Growth Council has been delegated the responsibility for the administration of this grant program, establishing necessary procedures; and

WHEREAS, said procedures established by the Strategic Growth Council require a resolution certifying the approval of application(s) by the City Council before submission of said application(s) to the State; and

WHEREAS, the City of Santa Cruz, if selected, will enter into an agreement with the State of California to carry out development of the Urban Greening Plan

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz that it hereby:

1. Approves the filing of an application for the Urban Greening Plan; and
2. Certifies that Applicant understands the assurances and certification in the application; and
3. Certifies that applicant will have sufficient funds to develop the plan; or will secure the resources to do so; and
4. Certifies that applicant will work towards the Governor's State Planning Priorities intended to promote equity, strengthen the economy, protect the environment, and promote public health and safety as included in Government Code Section 65041.1; and
5. Appoints the City Manager, or designee, as agent to conduct all negotiations, execute and submit all documents including, but not limited to applications, agreements, payment requests and so on, which may be necessary for development of the aforementioned plan.

RESOLUTION NO. NS-

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

I, the undersigned, hereby certify that the foregoing Resolution Number NS-_____ was duly adopted by the Santa Cruz City Council.

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk

DCE Statement of Qualifications – Urban Greening Plan Grant

Firm Description

Design, Community & Environment (DC&E) is a comprehensive planning and design firm with extensive experience in sustainable planning and design. DC&E has completed believes that responsible planning and design reflect the communities they serve and work in concert with the natural environment.

As its name implies, DC&E's work is based on three basic principles:

- ◆ **Design.** Almost every planning decision affects our physical environment. DC&E is committed to ensuring that development projects and planning policy have positive design implications.
- ◆ **Community.** DC&E believes that planning and design decisions must reflect local communities' needs. DC&E stresses community involvement and public participation as cornerstones of its work.
- ◆ **Environment.** In order to sustain itself into the future, our society must find development patterns that respect the natural environment. Therefore, DC&E stresses environmental responsibility and stewardship in planning and design.

DC&E has completed numerous projects involving comprehensive assessments and planning projects for urban greening. DC&E staff possess expertise in landscape architecture, urban design, comprehensive planning, GIS analysis, community-based planning. Projects include creek restoration, park and trail design and construction, urban forestry, green roofs, and site planning emphasizing low-impact development. DC&E's combined experience in urban greening projects and in Santa Cruz will lead to the development of an urban greening vision that reflects the needs of the community, as well as a feasible plan for creating and enhancing open space and habitat, and protecting natural resources.

Key Staff

Sarah Sutton, ASLA, LEED AP, Principal, provides expertise in landscape architecture, sustainability, urban forestry and innovative stormwater management practices. Ms. Sutton brings over 30 years of experience in public and private sector design, including streetscapes, plaza and park improvements. She was Principal-in-Charge of the *Smart Urban Landscapes: Residential Landscape Design Templates and Guidelines* for the California Urban Water Conservation Council (CUWCC) and the *Rooftop Resources Assessment* for Bay Localize and the *Bay-Friendly Landscape Design Resources On-Call Service* for Alameda County StopWaste.Org's Bay-Friendly Landscaping program, which focuses on identifying appropriate plants and horticultural practices in urban areas. As a licensed landscape architect with the State of

California, LEED™ accredited professional, Certified Green Building Professional and an accredited Green Roof Professional, she is an expert in sustainable planning, design and construction practices.

Isabelle Minn, LEED AP, is a Senior Associate and licensed Landscape Architect. Ms. Minn has Masters degrees in both landscape architecture and stream ecology and her previous research and work experience has included watershed hydrology and stream restoration. Her work focuses on sustainable site design and planning and on creating a balance between natural resource protection and recreation. Her projects include all aspects of creating or restoring parks and open space amenities, from master planning to the development of design documents. Ms. Minn managed the *Comanche Creek Vegetation Management Plan* for the City of Chico, the *Trancas Crossing Park and Napa River Trail* for the City of Napa, which includes a comprehensive native plant revegetation program, and the *Community Urban Forestry Master Plan* for the City of El Monte. She also has experience in streetscape and urban design projects, emphasizing the enhancement and creation of urban green spaces.

Jeff Williams, Associate Planner, specializes in urban design and comprehensive planning projects, including Specific Plans; Community Design and Land Use Elements of General Plans; design guidelines and development standards; and zoning code updates. Mr. Williams has extensive experience in Santa Cruz, including managing the *General Plan Community Design and Land Use Elements* for the City of Santa Cruz. Currently, Mr. Williams is managing the *Ocean Street Area Plan* for the City of Santa Cruz, and is developing strategic design and policy recommendations for a key corridor and arterial within the community. Mr. Williams is also serving as DC&E's Project Manager on the Santa Cruz Parking Ordinance Update.



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Water

SUBJECT: Beltz Wells Treatment Plant Driveway Project – Approval of Plans and Specifications and Authorization to Advertise for Bids and Award Contract. (WT)

RECOMMENDATION: Motion to approve the construction plans and specifications for the Beltz Wells Treatment Plant Driveway Project and authorize staff to advertise for bids. The City Manager is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27-563.

BACKGROUND: The Beltz Wells Treatment Plant (plant) is located off 38th Avenue in the County of Santa Cruz. Current access to the plant is via a narrow 12-foot wide driveway that turns sharply off Roland Drive. The combination of tight turns and narrow travel ways along this route makes access by large vehicles almost impossible, restricting necessary maintenance and improvement operations. To allow large vehicle access, it is necessary to widen a second existing driveway from 38th Avenue.

In April 2009, Council authorized the acquisition of an additional public utility easement in order to facilitate the project. This acquisition of the easement is now complete and staff is prepared to advertise the project for competitive bidding.

DISCUSSION: The project will consist of demolition and removal of an existing fence, paving, and vegetation, site grading, construction of a new driveway apron, paving, valley gutter, chain link fence and vehicle gates.

Bids will be opened at the Water Department Engineering Counter on Tuesday, May 25, 2010 at 4:00 p.m. The construction contract will be awarded to the lowest responsive and responsible bidder and will be executed by the City Manager in a form acceptable to the City Attorney per Resolution No. NS-27,563.

FISCAL IMPACT: The Engineer's estimate of the construction cost is \$130,000. Funding is available in the Water Department FY 2010 Capital Improvement Program, project c700020 Beltz Treatment Plant Rehabilitation.

Submitted by:
Bill Kocher
Water Director

Approved by:
Richard C. Wilson
City Manager

Available for public review at the Water Department Engineering Counter, 212 Locust Street, Suite C, Santa Cruz, California: Plans and specifications

ATTACHMENTS: None



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Water

SUBJECT: Water Supply Project – Post-Pilot Facility Site Modifications - Contract Change Order No. 3 and No. 4. (WT)

RECOMMENDATION: Motion to ratify Contract Change Order No. 3 (\$8,062) and No. 4 (\$12,270) with BCI Builders, Inc. (Scotts Valley) for Post Pilot Facility Site Modifications.

BACKGROUND: The City's Pilot Desalination Facility, in operation from March 2008 through April 2009, was located at the UC Santa Cruz Long Marine Lab (LML) to take advantage of its open-ocean intake and seawater discharge facilities. As compensation for use of the facilities, the City agreed in the lease contract to make certain modifications to the site needed by the University.

On July 14, 2009, Council approved the plans and specification for construction of the improvements, estimated at \$283,000. The Water Department received bids and contracted with BCI Builders, Inc. to complete the work for \$190,000. Construction has been ongoing since then.

The work has consisted of selective demolition of an existing concrete slab, construction of a new concrete slab and marine mammal pools, construction of a new wood fence, and removal and replacement of approximately 60 linear feet of 8-inch diameter seawater pipe.

DISCUSSION: The project has required additional costs due to unforeseen site conditions, changes to the design made by the University, and minor design deficiencies. Change Order No. 1 for \$7,423 and Change Order No. 2 for \$9,735 were within the contracted 10% contingency. Change Order No. 3 for \$8,062 and Change Order No. 4 for \$12,270 bring the total to \$37,490, \$18,490 over the contingency. The changes include expansion of the concrete slab area replaced, adjustment to the pool size, lengthen and upgrading of the new fence, and necessary drainage improvements.

It was necessary to execute and proceed with Change Orders No. 3 and No. 4 in order to coordinate the work with other time sensitive projects and operational needs at the LML facility. Staff now requests that Council ratify Change Orders No. 3 and 4.

FISCAL IMPACT: Funds are available in the Water Department FY 2010 Capital Improvement Program budget for the Water Supply Project, projects c700305 and c700016. According to the Memorandum of Agreement for development of the Desalination Plant, Soquel Creek Water District will share the cost of this contract. The University has also agreed to pay approximately \$2,000 for design changes they requested.

Submitted by:
Bill Kocher
Water Director

Approved by:
Richard C. Wilson
City Manager

ATTACHMENTS:

Contract Change Order #1
Contract Change Order #2R1
Contract Change Order #3
Contract Change Order #4



CONTRACT CHANGE ORDER
1
(EFFECTIVE ONLY WHEN SIGNED BY THE CITY)

WATER DEPARTMENT
 212 Locust St., Suite C
 Santa Cruz, CA 95060
 Ph: 831-420-5200
 Fax: 831-420-5201

Project: Post-Pilot Facility Site Modifications			Subject: Additional concrete demolition		
Contract date:	10/8/09	P.O. #:	91-10012	CWO#:	2009-002
C.O. Date:	11/3/09	C.O. #:	1		
Changes: i) All extra labor, equipment, materials and fuel required to demolish and remove from the site, all slab and footing concrete and reinforcing steel in addition to the amount originally bid (8" thick slab, 1'x1' footing).					
Payment: a) Fixed price adjustment.					
Time allowance: a) Fixed time adjustment.					
	Price:	Time:	Requested by: 11/4/09 Dene Bustichi, President, BCI Builders Date		
Base Contract Bid:	\$190,000.00	60	Recommended by: 11/10/09 Kalen Dodd, P.E. Associate Civil Engineer, Water Date		
Contract to Date:	\$0.00	17	Approved by: 11/10/09 Linette Almond, P.E. Deputy Director, Water Date		
Contract Contingency:	\$19,000.00	n/a	Approved by: N/A		
Contingency Allocated:	\$0.00	n/a	Bill Kocher, Director, Water Date		
Contingency Available:	\$19,000.00	n/a	Emergency Authorization: N/A		
C.O. Increase:	\$7,423.50	2	Richard C. Wilson, City Manager Date		
C.O. Decrease:	\$0.00	0			
Net Change:	\$7,423.50	2			
Contingency/Days Remaining:	\$11,576.50	45			
The contractor is hereby directed to make the above described changes or to perform the above described work not included in the contract.					
BCI Builders:			11/4/09 Dene Bustichi, President Date		
For valuable consideration set forth herein, the contractor hereby releases the City of Santa Cruz from any and all claims for direct, indirect, and impact expenses and additional time impact now existing or which may hereafter arise out or result from the work or change described herein.					



CONTRACT CHANGE ORDER
2 R1
(EFFECTIVE ONLY WHEN SIGNED BY THE CITY)

WATER DEPARTMENT
 212 Locust St., Suite C
 Santa Cruz, CA 95060
 Ph: 831-420-5200
 Fax: 831-420-5201

Project: Post-Pilot Facility Site Modifications	Subject: Additional chain link fence
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Contract date:	10/8/09	P.O. #:	91-10012	CWO#:	2009-002	C.O. Date:	2/24/10	C.O. #:	2
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Changes:
 All extra work and materials required to:

- i) Install 3" diameter pvc coated galvanized steel fence posts instead of fiberglass.
- ii) Install pvc coated galvanized steel chain link.
- iii) Add 73.5 linear feet of chain link fence.
- iv) Add 12' wide double swing gate.
- v) Add middle and bottom rail to original fence.

Payment:
 a) Fixed price adjustment.

	Price:
Base Contract Bid:	\$190,000.00
Contract Contingency:	\$19,000.00
C.O. #1 (11/3/09)	\$7,423.50
C.O. #3 (11/10/09)	\$8,061.92
Contingency Allocated:	\$15,425.42
C.O. #2 (2/24/10)	\$9,735.00
Contingency Available:	\$3,514.58
New Contract Total:	\$218,735.00

Recommended by:
 Kalen Dodd, P.E. Associate Civil Engineer, Water

Approved by:
 Linette Almond, P.E. Deputy Director, Water

The contractor is hereby directed to make the above described changes or to perform the above described work not included in the contract.

BCI Builders: 3/5/10
Date
 Dene Bustichi, President

For valuable consideration set forth herein, the contractor hereby releases the City of Santa Cruz from any and all claims for direct, indirect, and impact expenses and additional time impact now existing or which may hereafter arise out or result from the work or change described herein.



CONTRACT CHANGE ORDER
3
(EFFECTIVE ONLY WHEN SIGNED BY THE CITY)

WATER DEPARTMENT
 212 Locust St., Suite C
 Santa Cruz, CA 95060
 Ph: 831-420-5200
 Fax: 831-420-5201

Project: Post-Pilot Facility Site Modifications	Subject: Additional pool subgrade preparation
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Contract date: 10/8/09	P.O. #: 91-10012	CWO#: 2009-002	C.O. Date: 11/10/09	C.O. #: 3
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Changes:
 All extra work and materials required to:

- i) Excavate and remove from site, unsuitable soil, down to bedrock, up to 20 cubic yards.
- ii) Pour 2-sack slurry from bedrock beneath new pool to bottom of new concrete.
- iii) Lengthen pools by 8 inches.

Payment:
 a) Fixed price adjustment.

Time allowance:
 a) Fixed time adjustment.

	Price:	Time:	Requested by:	Date
Base Contract Bid:	\$190,000.00	60	Dene Bustichi, President, BCI Builders	11/12/09
Contract to Date:	\$0.00	22	Recommended by: <i>Rob W. [Signature]</i>	12/1/09
Contract Contingency:	\$19,000.00	n/a	Kalen Dodd, P.E. Associate Civil Engineer, Water	Date
Contingency Allocated:	\$0.00	n/a	Approved by: <i>Linette Almond</i>	12/1/09
Contingency Available:	\$19,000.00	n/a	Linette Almond, P.E. Deputy Director, Water	Date
C.O. Increase:	\$8,061.92	3	Approved by: N/A	
C.O. Decrease:	\$0.00	0	Bill Kocher, Director, Water	Date
Net Change:	\$8,061.92	3	Emergency Authorization: N/A	
Contingency/Days Remaining:	\$3,514.58	43	Richard C. Wilson, City Manager	Date

The contractor is hereby directed to make the above described changes or to perform the above described work not included in the contract.

BCI Builders:
Dene Bustichi, President *[Signature]* 11/12/09
Date

For valuable consideration set forth herein, the contractor hereby releases the City of Santa Cruz from any and all claims for direct, indirect, and impact expenses and additional time impact now existing or which may hereafter arise out or result from the work or change described herein.



CONTRACT CHANGE ORDER
4
(EFFECTIVE ONLY WHEN SIGNED BY THE CITY)

WATER DEPARTMENT
 212 Locust St., Suite C
 Santa Cruz, CA 95060
 Ph: 831-420-5200
 Fax: 831-420-5201

Project: Post-Pilot Facility Site Modifications		Subject: Additional chain link fence	
Contract date: 10/8/09	P.O. #: 91-10012	CWO#: 2009-002	C.O. Date: 3/24/10
		C.O. #: 4	

Changes:
 All extra work and materials required to:

- i) Install approximately 56 linear feet of concrete V ditch along the north and northeast sides of the slab. Connect said V ditch to concrete drain box. Install approximately 7 linear feet of 4" sch-80 pvc pipe in front of access gate on north side of slab.
- ii) Install approximately 29 linear feet of 6" tall concrete curb along the northwest side of the slab.

Payment:
 a) Fixed price adjustment.

	Price:
Base Contract Bid:	\$190,000.00
Contract Contingency:	\$19,000.00
C.O. #1 (11/3/09)	\$7,423.50
C.O. #3 (11/10/09)	\$8,061.92
C.O. #2 (2/24/10)	\$9,735.00
Contingency Allocated:	\$15,425.42
C.O. #4 (3/24/10)	\$12,269.98
Contingency Available:	\$3,514.58
New Contract Total:	\$231,004.98

Recommended by: *Kalen Dodd* 3/24/10
 Kalen Dodd, P.E. Associate Civil Engineer, Water

Approved by: *Linette Almond* 3/24/10
 Linette Almond, P.E. Deputy Director, Water

The contractor is hereby directed to make the above described changes or to perform the above described work not included in the contract.

BCI Builders: *Dene Bustichi* 3/25/10
Dene Bustichi, President Date

For valuable consideration set forth herein, the contractor hereby releases the City of Santa Cruz from any and all claims for direct, indirect, and impact expenses and additional time impact now existing or which may hereafter arise out or result from the work or change described herein.



CITY COUNCIL AGENDA REPORT

DATE: April 20, 2010

AGENDA OF: April 27, 2010
DEPARTMENT: City Council
SUBJECT: H.R. 4812 – the Local Jobs for America Act – Resolution of Support.
(CN)

RECOMMENDATION: Resolution supporting H.R. 4812, the Local Jobs for America Act and urging its immediate passage to protect community services and create more jobs.

BACKGROUND: With national unemployment at ten percent and the recession's heavy toll on local government revenues and services, Congress is considering additional legislation to create new jobs and provide fiscal relief to local governments.

DISCUSSION: Congressman George Miller has introduced H.R. 4812, the Local Jobs for America Act. Congressman Sam Farr is a co-sponsor. The legislation, if adopted, will provide substantial revenue to local governments including the City of Santa Cruz to allow us to save employee positions or restore positions that have been lost in the last few years due to budget cutbacks. A complete description of the benefits of this legislation is attached.

FISCAL IMPACT: There is no fiscal impact. Additional federal revenue will flow to the City if the legislation is enacted into law.

Submitted by:

Don Lane
Councilmember

Attachments: Resolution
Summary of H.R. 4812

Local Jobs for America Act (H.R. 4812)

Helping Local Communities Create A Million Public and Private Jobs

Our nation is going through one of the most difficult economic times in its history. We must do everything to help create jobs for those who are struggling to support their families. At the same time, the recession is forcing states and municipalities to cut jobs that are critically important – teachers, police, firefighters, childcare workers, and others. The Local Jobs for America Act will provide our economy a shot in the arm by putting a million people to work by restoring these services in local communities.

The Local Jobs for America Act will create a million public and private jobs in local communities this year.

Support will be targeted directly to states and municipalities with the greatest number of people out of work to restore important local services.

The Local Jobs for America Act will help ensure that local communities can still operate essential services.

Because of the recession, many local communities have cut back on education, public safety, childcare, health care, education and transportation. As a result, families who rely on these services are suffering the cost of these cutbacks.

Creating local jobs will stimulate local businesses and create more jobs in the local economy.

By increasing employment in local communities, families will be able to start spending again at their neighborhood businesses and favorite restaurants. This will help spur additional jobs for local small businesses.

The Local Jobs for America Act will fund salaries for private sector on-the-job training to help local businesses put people back to work.

Specifically, the Local Jobs for America Act invests:

- \$75 billion over two years to local communities to hire vital staff
- Funding for 50,000 on-the-job private-sector training positions

The bill also includes provisions already approved by the House:

- \$23 billion this year to help states support 250,000 education jobs
- \$1.18 billion to put 5,500 law enforcement officers on the beat
- \$500 million to retain, rehire, and hire firefighters

\$75 billion for 750,000 jobs providing needed local services:

\$52.5 billion directly to communities with at least 50,000 residents – Mayors, County Officials and Governors would submit a statement to the need for the specific positions to the Department of Labor. The department would then distribute funding to communities based on the Community Development Block Grant formula.

Half of the funding will go to positions that would be eliminated due to ongoing budget shortfalls. Up to 25 percent of the funding can go to non-profit community organizations that provide services not customarily provided by local government employees. The remaining 25 percent may be used for creation of new jobs in local government.

\$22.5 billion directly to governors to distribute to communities with fewer than 50,000 residents – Job creation funding will be sent to towns, counties, or private non-profits outside of those communities eligible for the funding above. Local governments will apply to the governor for the funding.

Like support to larger communities, half of the funding may be spent on retention of positions slated for elimination, up to 25 percent of the funding can go to non-profit community organizations that provide services not customarily provided by local government employees. The remaining 25 percent may be used for creation of new jobs in local government. The governor must fairly distribute the funding among congressional districts, in proportion to each district's rural population.

Funds may only be used for compensation of full-time, full-year positions. “Full-year” defined to include school year positions. Local governments may expand existing services or restore services cut in the past five years. Positions are federally funded for two years.

Jobs are regular government or local community organization jobs. These jobs will be in pre-existing job titles. Mayors and County Officials are not required to continue funding these positions once federal funding expires. Priority will be given to hire workers laid off from city positions, current unemployment insurance recipients and the long-term unemployed whose benefits have been exhausted.

\$23 billion to help states support an estimated 250,000 education jobs; \$1.18 billion to put 5,500 law enforcement officers on the beat; and \$500 million to hire and retain fire fighters

These funds will be allocated by states to school districts and public institutions of higher education to retain or create jobs to provide educational services and to modernize, renovate, and repair public education facilities. Funding will be distributed the state fiscal stabilization fund formula as passed in the Recovery Act. States would then distribute funding to school districts based on each state's education funding formula.

\$500 million for approximately 50,000 additional on-the-job training positions slots to help private business expand employment

These funds will enable workers to acquire core job skills and important work experience for private employers. Individuals will be able to earn a salary and learn a new job through the Workforce Investment Act. Participants will gain core job skills and experience through training and close supervision by their employer.

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
SUPPORTING H.R. 4812, THE LOCAL JOBS FOR AMERICA ACT, AND URGING
ITS IMMEDIATE PASSAGE

WHEREAS, our nation is going through one of the most difficult economic times in its history with the national unemployment rate hovering around 10 percent; and

WHEREAS, despite signs of an economic recovery at the national level, economic conditions in most cities and towns across the country continue to worsen with more municipal governments facing significant budget shortfalls and increased demand for services; and

WHEREAS, the City of Santa Cruz employs nearly 800 workers who provide critical services to our residents ranging from public safety, community and economic development, infrastructure maintenance, trash collection, and wastewater treatment; and

WHEREAS, the unemployment rate in Santa Cruz County has risen to 15 percent; and

WHEREAS, the City of Santa Cruz continues to face a budget shortfall and may have to choose between laying off employees, eliminating services, and raising taxes to balance its budget; and

WHEREAS, such action to counter the recession's impact on the City of Santa Cruz could contribute to an increase in the lack of fiscal stability for this community and further contribute to the nation's unemployment rate just as the economy begins to recover; and

WHEREAS, federal aid will be necessary if the City of Santa Cruz is to avoid public service worker layoffs including fire and police, teachers and other important city workers or significant increases in taxes to pay the salaries of these employees.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz that it hereby endorses H.R. 4812, the Local Jobs for America Act and urges the Congress and the President to adopt H.R. 4812 into law immediately because it will help to create one million public and private jobs in local communities this year, retain existing employees, and provide employment opportunities in the public and private sectors.

BE IT FURTHER RESOLVED that the City of Santa Cruz supports the Local Jobs for America Act because it will help ensure that our city can continue to provide services essential to families in our community, would reduce the need for state and local tax increases while helping governments avoid making the choice between eliminating services and raising taxes, and would help stimulate local businesses and create more jobs in the local economy.

BE IT FURTHER RESOLVED that the Mayor is hereby directed to transmit a copy of this resolution to Congressman Farr, Senators Boxer and Feinstein and to the President of the United States.

RESOLUTION NO. NS-

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



CITY COUNCIL AGENDA REPORT

DATE: April 15, 2010

AGENDA OF: April 27, 2010

DEPARTMENT: City Council

SUBJECT: AB 32: Global Warming Solutions Action of 2006 – Resolution Reaffirming Support. (CN)

RECOMMENDATION: Resolution reaffirming support of AB 32, the Global Warming Solutions Act of 2006, which establishes a timetable that aims to significantly reduce California’s greenhouse gas emissions, and urging its full implementation.

BACKGROUND: In September 2006, the California State Legislature passed the Global Warming Solutions Act of 2006 (AB 32), which aims to reduce California’s greenhouse gas emissions by 2020 to 1990 emission levels. If properly executed, it will place California in close step with standards proposed by the Kyoto Protocol, resulting in an 80 percent reduction in emissions by 2050. Though gathering a plurality of support from the California public and passing with bipartisan support, opposition to the bill has been fierce, placing its future in jeopardy.

AB 32 has weathered many attempts to weaken its core legislation. Amongst the most recent, AB 118 was proposed in order to completely overturn the law, failing after it was rejected by the Assembly Natural Resources Committee in January 2010. A more formidable effort, Rep. Tom McClintock and Assemblyman Dan Logue have proposed the “California Jobs Initiative” for the November 2010 ballot, which would suspend measures put forth by AB 32 until the unemployment rate falls beneath 5.5% for four consecutive quarters. As California has rarely reached this low unemployment level, this would in effect overturn AB 32.

Though efforts of this nature are unlikely to be successful in the near future, the upcoming gubernatorial election may result in a change in the political landscape. For example, current Republican primary frontrunner Meg Whitman has declared that, if elected, she will implement a moratorium on AB 32, and other Republican contenders have expressed similar views. If an opponent of AB 32 wins the California governorship, the future of AB 32 will be uncertain.

DISCUSSION: Conflict over AB 32, as with much environmental legislation, revolves around two key issues: the economy, and the validity of global warming’s potential consequences. While the economics are more legitimately disputed, the reality of global warming is no longer legitimately debated within the scientific community. The Intergovernmental Panel on Climate Change (IPCC), a United Nations scientific intergovernmental body, collective Nobel laureate and perhaps the most authoritative institution on the matter, has painted a vivid picture of the devastation global warming will bring. It assesses that the likelihood human activity, primarily

in the form of greenhouse gas emissions, is responsible for global warming is over 90 percent. Few climatologists disagree.

The economic impact of AB 32 is more legitimately in dispute. While cap and trade regulations will not take effect until 2012, opponents speculate that they and other costly regulations will result in a substantial financial burden for affected businesses, decreasing economic activity and driving businesses away from California. Though these forecasts are most likely exaggerated, it is likely certain economic sectors will take a financial blow.

Counterbalancing this negative economic impact, however, are the benefits for green technology. California has the nation's most robust green technology sector, which will expand as demand inevitably grows. AB 32 encourages investment and innovation in this sector, creating new jobs that would have otherwise manifested elsewhere, and resulting in net economic growth. In short, AB 32 facilitates the move to the new energy and green technology sectors that is already happening globally, giving California a leg up in the years to come.

Conversely, the removal of AB 32 will punish those who have invested in green technology, adversely affecting the sector and discouraging future investment.

The City of Santa Cruz supported the passage of AB 32 in 2006 and continues to emphatically support its full implementation.

FISCAL IMPACT: There is no fiscal impact.

Submitted by:

Mike Rotkin
Mayor

Lynn Robinson
Councilmember

Ryan Coonerty
Vice Mayor

Attachments: Resolution

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
REAFFIRMING ITS SUPPORT OF AB 32, THE GLOBAL WARMING SOLUTIONS ACT
OF 2006, AND URGING ITS FULL IMPLEMENTATION

WHEREAS, climate change poses a considerable threat which requires immediate and concrete action; and

WHEREAS, the Global Warming Solutions Act (AB 32) takes constructive steps to curb California's greenhouse gas emissions; and

WHEREAS, the cultivation of green technology is of particular benefit to California, a leader in the sector and AB 32, among other benefits, encourages growth in this sector; and

WHEREAS, the Santa Cruz City Council unanimously passed a resolution supporting AB 32, on March 28, 2006, four years ago; and

WHEREAS, currently, there are multiple legislative efforts and political proposals that aim to postpone, weaken or eliminate AB 32; and

WHEREAS, any legislative result that lessens the effectiveness of AB 32 will harm California both environmentally and economically.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Santa Cruz that it hereby reaffirms its strong support for AB 32, the Global Warming Solutions Act, and opposes any efforts that directly or indirectly delay, weaken or eliminate the law.

BE IT FURTHER RESOLVED that the Mayor is directed to transmit a copy of this resolution to Assemblymember Monning, Senator Simitian and the League of California Cities.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



CITY COUNCIL AGENDA REPORT

DATE: 4/21/2010

AGENDA OF: 4/27/2010

DEPARTMENT: Economic Development

SUBJECT: 2010-2015 Consolidated Plan and 2010 - 2011 Action Plan for the City's Housing and Community Development Program. (ED)

RECOMMENDATION: Resolution adopting the 2010-2015 Consolidated Plan and directing staff to submit the document to HUD.

Resolution adopting the 2010 - 2011 Annual Action Plan for the city's Housing and Community Development Program, certifying environmental review, and authorizing the City Manager to sign an application for federal funding assistance for the 2010 - 2011 program year.

Resolution authorizing the City Manager to execute program/project contracts, loan agreements and related loan documents with CDBG and HOME sub-recipients and contractors in connection with Consolidated Plan activities proposed in the 2010 - 2011 Annual Action Plan and any subsequent revisions to the Action Plan.

Resolution authorizing the continuance of existing funding for reprogrammable CDBG and HOME funds from the 2009 - 2010 Consolidated Plan Program Year to the 2010 - 2011 Program Year.

BACKGROUND: The Five-Year Consolidated Plan provides strategic direction for housing and community development activities carried out in the City of Santa Cruz. The city's current Five-Year Consolidated Plan was approved by HUD in 2005. It covers the program period which will end on June 30, 2010. A draft 2010-2011 Consolidated Plan has been written based upon action taken by the Council at a public hearing on March 23, 2010. The 2010-2011 Consolidated Plan will cover the period from July 1, 2010 to June 30, 2015.

Each year of the Consolidated Plan the City Council adopts an Annual Action Plan, which lays out the activities that will be undertaken in the coming year in pursuit of Consolidated Plan goals and objectives. The Annual Action Plan is used to designate the allocation of Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) funds received from the U.S. Department of Housing and Urban Development (HUD) for that year. Specific activities which will be undertaken in the 2010 - 2011 Program Year along with their funding sources are identified in the Plan. This will be the first Annual Action Plan under the 2010-2011 Consolidated Plan.

The draft Annual Action Plan was prepared based upon action taken by the Council at a public hearing on March 23, 2010 and was available for public review and comment for a period for 30 days following publication, as required by federal regulations. The Plan and the uses of CDBG and HOME program funds will be amended, if necessary, after this second public hearing and included in the final Annual Action Plan before submission to HUD.

Citizen Participation Process

Development of the Action Plan involved citizen participation through contacts and meetings with non-profit organizations, service providers, advisory groups and individual citizens. The announcement of funding availability in November 2009, together with the public hearings on March 23, 2010, and April 27, 2010, were advertised in the newspaper and through individual contact with citizen groups.

Program Entitlements

For the 2010 - 2011 Program Year, the City's entitlements are \$659,462 in new CDBG funding and \$600,086 in new HOME funding. With the anticipated program income of \$15,600 in CDBG funds and \$46,000 in CDBG funds for reprogramming, the total available for new activities would be \$721,062 in CDBG funds and \$600,086 in HOME funds.

Environmental Review for Both CDBG & HOME Funded Activities

The environmental review record for NEPA and CEQA compliance for proposed use of funds is available for review in the Council office. The review process resulted in statutory exemptions, exclusions or references to earlier environmental review documents.

DISCUSSION: The Council held a Public Hearing on March 23, 2010, and tentatively indicated the activities to be funded and the amount of funding for each proposal in the Annual Action Plan. Since that time the Annual Action Plan has been completed.

For this plan year, the standard formula calculations required by HUD have been modified for CDBG funded Social Service Provider activities. Qualified Community Based Development Organizations (CBDOs) serving the Beach South of Laurel Neighborhood Revitalization Area (NRSA) may exceed HUD's 15% allocation limit for social services. The Familia Center, whose service area includes the Beach Flats neighborhood, qualifies as a CBDO.

The Annual Action Plan also identifies those projects approved in previous years that are ongoing or completed, for which the remaining authorized funds will be carried over into the new program year. A resolution authorizing the carryover is attached. (The balances shown in the resolution are only approximate and subject to change resulting from expenditures occurring through June 30, 2010. Per the resolution, the actual carryover will be the amount remaining at the end of the fiscal year.)

Upon adoption by Council and following a 15 day public review period, the Annual Action Plan will be forwarded to HUD for approval and release of federal funds. The 15 day public review period will be noticed in the newspaper.

FISCAL IMPACT: All activities proposed in the 2010 - 2011 Annual Action Plan will be funded with CDBG and HOME funds or program income.

Prepared by:
Carol Berg
Housing and Community
Development Manager

Submitted by:
Bonnie Lipscomb
Director of Economic Development

Approved by:
Richard C. Wilson
City Manager

The adopted Consolidated Plan and Action Plan, as well as certifications and environmental review documents for projects and programs, will be available for review at the Reference Desk of the Central Public Library.

ATTACHMENTS: Resolutions

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
AUTHORIZING THE CONTINUANCE OF EXISTING USES FOR REPROGRAMMABLE
CDBG AND HOME PROGRAM FUNDS FROM THE 2009 - 2010 CONSOLIDATED PLAN
PROGRAM YEAR TO THE 2010 - 2011 PROGRAM YEAR.

WHEREAS, the City Council has determined that funds are available from the 2009 - 2010 Program Year under the Federal Consolidated Plan for the City's Housing and Community Development Program; and

WHEREAS, the City Council has considered the use of these reprogrammable funds at a public hearings on March 23, 2010 and April 27, 2010; and

WHEREAS, the Council has determined that use of these reprogrammable funds meets the requirements of Federal regulations for expenditure of funds.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Santa Cruz does hereby direct the continuation of existing uses of reprogrammable funds as specified in the attached Exhibit "A", and directs staff to notify the U.S. Department of Housing and Urban Development of its expenditure.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk

RESOLUTION NO. NS-
EXHIBIT "A"

CITY OF SANTA CRUZ
HCD PROGRAM
STATEMENT OF USE OF REPROGRAMMABLE FUNDS
FROM PROGRAM YEAR 2009 - 2010
TO
PROGRAM YEAR 2010 - 2011

CDBG PROGRAM - FUND 261

<u>Amount*</u> <u>Reprogrammable:</u>	<u>Reprogrammed</u> <u>From:</u>	<u>Reprogrammed To:</u>	<u>Amount*</u> <u>Reprogrammed:</u>
\$32,230	Code Enforcement h501622	City Loan Repayment- Homeless Community Center Improvements d500002	\$32,230
\$13,770	Unallocated Funds	City Loan Repayment- Homeless Community Center Improvements d500002	\$13,770
		Total	\$46,000

*Approximate carryover. Actual fund balance as of June 30, 2010 will be carried forward into 2010-2011 Program Year.

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
TO ADOPT THE 2010 - 2015 CONSOLIDATED PLAN AND DIRECT STAFF
TO SUBMIT THE DOCUMENT TO HUD.

WHEREAS, the U.S. Department of Housing and Urban Development (HUD) requires that any jurisdiction receiving Federal Community Development Block Grant (CDBG) and the Home Investment Partnerships Program (HOME) grant funds from HUD prepare a five year Consolidated Plan to provide the basis for an Annual Action Plan; and

WHEREAS, the City Council, in accordance with its approved Citizen Participation Plan, held public hearings on March 23, 2010, and April 27, 2010 for the purpose of soliciting input from the public on the proposed 2010 - 2015 Consolidated Plan; and

WHEREAS, the City Council directed the preparation of the 2010 - 2015 Consolidated Plan, following consideration of comments and recommendations following a publicly noticed 30 day public review period.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Santa Cruz does hereby adopt the proposed 2010 - 2015 Consolidated Plan and directs staff to submit the adopted Plan to HUD.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
TO ADOPT THE 2010 - 2011 ANNUAL ACTION PLAN FOR THE CITY'S HOUSING AND
COMMUNITY DEVELOPMENT PROGRAM, CERTIFY ENVIRONMENTAL REVIEW,
AND AUTHORIZE THE CITY MANAGER TO SIGN AN APPLICATION FOR FEDERAL
FUNDING ASSISTANCE FOR THE 2010 - 2011 PROGRAM YEAR.

WHEREAS, the U.S. Department of Housing and Urban Development (HUD) requires that any jurisdiction receiving Federal Community Development Block Grant (CDBG) and the Home Investment Partnerships Program (HOME) grant funds from HUD prepare a Annual Action Plan to identify the activities that will be undertaken in the coming year; and

WHEREAS, the City Council, in accordance with its approved Citizen Participation Plan, held public hearings on March 23, 2010, and April 27, 2010 for the purpose of soliciting input from the public on the proposed 2010 - 2011 Annual Action Plan for the City's Housing and Community Development Program; and

WHEREAS, the City Council solicited competitive proposals for community development activities and projects including land acquisition, housing rehabilitation and housing project costs, economic development activities, public facilities, planning activities and public services which are consistent with the objectives of the Federal Community Development Block Grant (CDBG) and the Home Investment Partnerships Program (HOME) and the City's adopted Consolidated Plan, covering the program period from 2010-2015; and

WHEREAS, the City Council directed the preparation of an Annual Action Plan and an application to HUD for funding, following consideration of comments and recommendations following a publicly noticed 30 day public review period and the completion of environmental review in compliance with CEQA and NEPA; and

WHEREAS, the City Council certifies that it has fulfilled the requirements for environmental review, decision-making, and action pertaining to development of the Federal funding application for 2010 - 2011.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Santa Cruz does hereby adopt the proposed 2010 - 2011 Annual Action Plan and awarding of competitive project funding, as itemized in Exhibit "A" attached, and authorizes the City Manager to sign and submit the application for Federal assistance for the Housing and Community Development Entitlement Program for 2010 - 2011.

RESOLUTION NO. NS-

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED _____
Mayor

ATTEST: _____
City Clerk

EXHIBIT A.1 - 2010-2011 PROGRAM YEAR FUNDING

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	
\$659,462	2010-2011 CDBG Entitlement
\$15,600	Estimated 2010-2011 program income
<hr/>	
\$675,062	<i>Basis for formula calculations</i>
\$46,000	Prior year funds to be reprogrammed or allocated
<hr/>	
\$721,062	Total available prior to allocation deductions
ALLOCATION DEDUCTIONS	
\$101,259	<i>Public services (15% of Basis per HUD Formula)</i>
\$135,012	<i>Administration & planning (20% of Basis per HUD Formula)</i>
\$10,000	Rehab Housing Services Program Costs
<hr/>	
\$474,791	Total CDBG funds available for Projects & Additional SSP Funding
HOME INVESTMENT PARTNERSHIPS PROGRAM (HOME)	
\$600,086	2010-2011 HOME Entitlement
\$0	Estimated 2010-2011 program income
<hr/>	
\$600,086	Basis for formula calculations
\$0	Prior year funds to be reprogrammed
<hr/>	
\$600,086	Total prior to formula allocations
ALLOCATION DEDUCTIONS	
\$90,013	<i>Minimum CHDO set-aside (15% of new entitlement)</i>
\$60,009	<i>Administration (10% of Basis)</i>
<hr/>	
\$450,064	Total HOME funds available for non CHDO projects.

EXHIBIT A.2 - 2010-2011 CDBG BUDGET FOR PROJECTS/PROGRAMS

PROJECTS & CODE ENFORCEMENT		FUNDING
<i>Activity:</i>	Homeless Community Resource Center Improvements City Loan Repayment for Construction Costs	\$210,000
<i>Applicant</i>	Homeless Services Center	
<i>Activity:</i>	River Street Shelter Center Roof Repair	\$12,000
<i>Applicant</i>	City of Santa Cruz	
<i>Activity:</i>	Teen Center Rehabilitation	\$13,000
<i>Applicant</i>	City of Santa Cruz, Department of Parks & Recreation	
<i>Activity:</i>	Target Area Housing Code Enforcement	\$180,000
<i>Applicant</i>	City of Santa Cruz, Department of Planning & Community Development	
TOTAL PROJECT & CODE ENFORCEMENT FUNDING		\$415,000
PUBLIC SERVICES		FUNDING
<i>Activity:</i>	Neighborhood Services - Familia Center	\$61,170
<i>Applicant</i>	Familia Center	
<i>Activity:</i>	Homeless Community Resource Center	\$47,253
<i>Applicant</i>	Homeless Services Center	
<i>Activity:</i>	River Street Shelter	\$32,627
<i>Applicant</i>	Santa Cruz Community Counseling Center	
<i>Activity:</i>	Senior Housing Placement	\$10,000
<i>Applicant</i>	Senior Network Services	
<i>Activity:</i>	Neighborhood Services - B.F. Community Ctr	\$10,000
<i>Applicant</i>	Community Bridges	
TOTAL SOCIAL SERVICE PROVIDER FUNDING		\$161,050
ADMINISTRATION & PROGRAM REINVESTMENT		FUNDING
<i>Activity:</i>	Grant Administration and Planning	\$135,012
<i>Applicant</i>	City of Santa Cruz Planning & Community Development	
<i>Activity:</i>	Rehab Housing Services Program Costs	\$10,000
<i>Applicant</i>	City of Santa Cruz Planning & Community Development	
TOTAL ADMINISTRATION & OPERATING FUNDS		\$145,012
TOTAL CDBG FUNDING		\$721,062

EXHIBIT A.3 - 2010-2011 HOME BUDGET FOR PROJECTS/PROGRAMS

PROJECTS		FUNDING ALLOCATION		
		CHDO FUND	OTHER FUNDS	TOTAL
<i>Activity:</i>	Frederick Street Home Ownership Unit	--	\$16,000	\$16,000
<i>Applicant:</i>	Habitat for Humanity			
<i>Activity:</i>	Neary Lagoon Rehabilitation Project	--	\$0	\$0
<i>Applicant:</i>	Central Coast Housing/Mercy Housing CA			
<i>Activity:</i>	Holy Cross Senior Housing Project	\$90,013	\$37,987	\$128,000
<i>Applicant:</i>	Central Coast Housing/Mercy Housing CA	(By Formula)		
<i>Activity:</i>	First Time Homebuyer Program	--	\$210,000	\$210,000
<i>Applicant:</i>	City of Santa Cruz			
<i>Activity:</i>	HOME Housing Services Program	--	\$186,077	\$186,077
<i>Applicant:</i>	Fund City of Santa Cruz			
TOTAL PROJECT FUNDING		\$90,013	\$450,064	\$540,077
ADMINISTRATION				
<i>Activity:</i>	Grant Administration & Planning	--	\$60,009	\$60,009
<i>Applicant:</i>	City of Santa Cruz			
TOTAL ADMINISTRATION		\$0	\$60,009	\$60,009
TOTAL HOME FUNDING		\$90,013	\$510,073	\$600,086

RESOLUTION NO. NS-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
AUTHORIZING THE CITY MANAGER TO EXECUTE PROGRAM/PROJECT CONTRACTS,
LOAN AGREEMENTS AND RELATED LOAN DOCUMENTS WITH CDBG AND HOME
SUBRECIPIENTS AND CONTRACTORS IN CONNECTION WITH CONSOLIDATED PLAN
ACTIVITIES PROPOSED IN THE 2010- 2011 ONE-YEAR ACTION PLAN
AND ANY SUBSEQUENT REVISIONS TO THE ACTION PLAN.

WHEREAS, the City Council of the City of Santa Cruz adopted a program of activities to be funded under the Federal Consolidated Plan Program for 2010 - 2011; and

WHEREAS, an allocation has been made to various non-profit and public subrecipient organizations, to provide funding for public services, facilities, housing and other projects; and

WHEREAS, the approved subgrantee organizations are nonprofit or public agencies created and operated for the purpose of providing public services, facilities, housing and other projects.

NOW, THEREFORE, BE IT RESOLVED, that the City Manager is authorized to execute a) 2010 - 2011 CDBG Sub-recipient Agreements, b) 2010 - 2011 HOME Program Agreements, c) 2010 - 2011 Subcontractor Agreements, and d) loan agreements and related loan documents.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



CITY COUNCIL AGENDA REPORT

DATE: April 15, 2010

AGENDA OF: April 27, 2010

DEPARTMENT: City Council

SUBJECT: Formation of Santa Cruz County Tourism Marketing District. (CN)

RECOMMENDATION: Resolution granting consent to the County of Santa Cruz to form the Santa Cruz County Tourism Marketing District.

BACKGROUND: Over the last year, the Santa Cruz County Hospitality and Lodging Association and the Santa Cruz County Conference and Visitors Council have been developing the Santa Cruz County Tourism Marketing District (SCCTMD). The SCCTMD is a benefit assessment district proposed to help fund marketing and sales promotion efforts for Santa Cruz County lodging businesses.

DISCUSSION: The benefit assessment district must be formed pursuant to the Property and Business Improvement District Law of 1994 which requires legislative action to levy a new assessment. The County of Santa Cruz Board of Supervisors will conduct the legislative process, including the notice, protest, and public hearing procedures to establish the SCCTMD. The consent of the Santa Cruz City Council is required to form the district within the City's territorial jurisdiction. The consent of the cities of Scotts Valley, Capitola, and Watsonville is also being requested.

The attached report provides detailed information on the proposed benefit assessment district, including the formation process, assessment rate, duration, costs, budget, and services. In summary, the SCCTMD is proposed to be established countywide, including all cities and unincorporated areas, and would have five-year duration. The primary goal of the SCCTMD is to increase room occupancy which would in turn increase transient occupancy tax (TOT) revenues to local jurisdictions. In addition, the SCCTMD would provide a stable source of funding for tourism promotion. The funding generated by the benefit assessment district (estimated at \$1.1 million annually) would supplement existing private and public tourism promotion funding.

FISCAL IMPACT: It is proposed that each jurisdiction would collect the assessment from subject properties within its territory along with the existing TOT. The County of Santa Cruz and each city will be paid a fixed administrative fee of 1% of the amount collected within their jurisdiction for the costs of administration, which is an estimate of the costs of services to be delivered by the jurisdictions. In the event that there are unanticipated actual additional costs, beyond the administrative fee, the jurisdictions will be paid any actual costs which exceed the

fixed fee mentioned above provided that the jurisdiction makes available to the Santa Cruz County Conference and Visitors Council a full itemization of the actual costs.

The expanded marketing and sales promotion is expected to increase room occupancy, which in turn will result in an increase in TOT revenue for the City.

Submitted by:

Submitted by:

Cynthia Mathews
Councilmember

Lynn Robinson
Councilmember

Attachments: Santa Cruz County Tourism Marketing District Management District Plan
Resolution

SANTA CRUZ COUNTY TOURISM MARKETING DISTRICT

MANAGEMENT DISTRICT PLAN

*Formed pursuant to the Property and Business Improvement District Act of 1994
(Streets and Highways Code §36600 et seq.)*

Submitted to the

Santa Cruz County Hospitality and Lodging Association

March 29, 2010

by



SANTA CRUZ COUNTY TOURISM MARKETING DISTRICT MANAGEMENT DISTRICT PLAN

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I. INTRODUCTION AND OVERVIEW

Developed by the Santa Cruz County Hospitality and Lodging Association (SCCHLA) and the Santa Cruz County Conference and Visitors Council (SCCCVC), the Santa Cruz County Tourism Marketing District (SCCTMD) is a benefit assessment district proposed to help fund marketing and sales promotion efforts for Santa Cruz County lodging businesses. This approach has been used successfully in other destination areas throughout the country to improve tourism and drive additional room nights.

Location: The proposed SCCTMD includes all lodging businesses with more than five (5) rooms located within the boundaries of the County of Santa Cruz.

Services: Marketing and sales promotions to increase tourism and to market Santa Cruz County as a tourist, meeting and event destination.

Budget: The total SCCTMD annual budget for each year of its five (5) year operation is anticipated to be approximately \$1,142,683.

Cost: Annual assessment rates are \$1.00 per occupied room per night on lodging businesses with between six (6) and twenty-nine (29) rooms, and \$1.50 per occupied room per night on lodging businesses with thirty (30) or more rooms. Based on the benefit received, assessments will not be collected on stays of more than thirty (30) consecutive days. Assessments will not be collected on stays pursuant to contracts executed prior to May 1, 2010. Lodging businesses with between one (1) and five (5) rooms will be exempt from the assessment.

Formation: TMD formation requires submittal of petitions from lodging businesses representing more than 50% of the total annual assessment followed by a Board of Supervisors hearing and an opportunity for a written protest. The assessed lodging business owners will receive notice of the public hearing by mail. If there is a majority written protest, the TMD will not be formed.

Duration: The proposed SCCTMD will have a five (5) year life. The SCCTMD assessment will be implemented beginning July 1, 2010. Once per year beginning on the anniversary of the formation of the district there is a 30 day period in which owners paying more than 50% of the assessment may protest and terminate the district.

II. WHY TOURISM MARKETING DISTRICT FOR SANTA CRUZ COUNTY?

There are several reasons why now is the right time to form a TMD in Santa Cruz County; the most compelling reasons are as follows:

1. The Need to Increase Occupancy

The formation of the SCCTMD is a proactive effort to provide supplemental funding beyond that provided by the Countywide public entities. The funding will ensure that adequate financing exists for the investment required to increase occupancy in the lodging industry and be competitive in the group and leisure tourism market. The investment will cover an expanded marketing and promotional budget needed to reach this market segment.

2. An Opportunity for Increasing Countywide Tax Revenues

As occupancy rates increase, so too will the Countywide TOT revenue. With stable public/private funding for tourism marketing efforts, annual occupancy rates should increase significantly as new marketing and sales promotion programs are implemented. Greater occupancy will also produce an increase in sales tax revenues from tourist spending. This represents a substantial return to the County. The formation of the SCCTMD in partnership with the SCCHLA and the SCCCVC creates a stable funding source tied directly to tourism promotion.

3. Stable Funding for Tourism Promotion

The SCCTMD will provide a stable source of funding for consistent tourism promotion efforts. The SCCTMD will provide funding for tourism promotion free of the political and economic circumstances that can reduce or eliminate government funding for tourism promotion.

III. WHAT IS A TOURISM MARKETING DISTRICT?

Tourism Marketing Districts (TMDs) utilize the efficiencies of private sector operation in the market-based promotion of tourism districts. TMDs allow lodging and tourism-related business owners to organize their efforts to increase tourism. Tourism-related business owners within the district fund a TMD, and those funds are used to provide services that the businesses desire and that benefit the lodging businesses within the District.

Tourism Marketing District services may include, but are not limited to:

- Marketing of the Destination
- Tourism Promotion Activities
- Sales Lead Generation

In California, Tourism Marketing Districts are formed pursuant to the Property and Business Improvement District Law of 1994 (PBID Law). This law allows for the creation of a special benefit assessment district to raise funds within a specific geographic area. *The key difference between TMDs and other special benefit assessment districts is that funds raised are returned to the private non-profit corporation governing the district.*

There are many benefits to Tourism Marketing Districts:

- Funds cannot be diverted for other government programs;
- Tourism Marketing Districts are customized to fit the needs of each tourism district;
- They allow for a wide range of services, including those listed above;
- Tourism Marketing Districts are ***designed, created and governed by those who will pay*** the assessment;
- They provide a stable funding source for tourism promotion.

The Property and Business Improvement District Law of 1994 (AB 3754), as amended January 1, 2009, is provided in Appendix 1 of this document.

IV. SANTA CRUZ COUNTY TMD BOUNDARY

The SCCTMD will include all lodging businesses with six (6) rooms or more, existing and in the future, available for public occupancy within the boundaries of the County of Santa Cruz. All lodging business that are established after the approval of this plan but before the end of the district term shall be included in the assessment collections.

The boundary currently includes 111 lodging businesses. Please see the map below. A complete listing of lodging businesses within the proposed SCCTMD can be found on Appendix 2 of this Plan.



V. SERVICE PLAN AND BUDGET

A. Assessment

Annual assessment rates are \$1.00 per occupied room per night on lodging businesses with between six (6) and twenty-nine (29) rooms, and \$1.50 per occupied room per night on lodging businesses with thirty (30) or more rooms. Based on the benefit received, assessments will not be collected on stays of more than thirty (30) consecutive days. Assessments will not be collected on stays pursuant to contracts executed prior to May 1, 2010. Lodging businesses with between one (1) and five (5) rooms will be exempt from the assessment.

Bonds may not be issued.

The amount of assessment, if passed on to each transient, shall be separately stated from the amount of rent charged and any other applicable taxes, and each transient shall receive a receipt for payment from the business.

B. Determination of Special Benefit

State law provides that the expenses of the district shall be apportioned in proportion to the benefit received by assessed businesses.

A special benefit is defined as a particular and distinct benefit over and above general benefits conferred on the public at large. Conversely, a general benefit is a benefit to businesses in the surrounding community or a benefit to the public in general resulting from the improvement, activity or service to be provided by the assessment levied. Many general benefits to the public at large are conveyed by municipal services, such as fire protection, police services and public transit services. These services are targeted to serve the public at large and do not confer special benefits on particular businesses.

The services in this Management District Plan are designed to provide targeted services to lodging businesses. These services are tailored not to serve the general public, but rather to serve the specific lodging businesses within the District, e.g., the proposed activities are specifically targeted to increase room nights for assessed lodging businesses within the boundaries of the District, and are narrowly tailored. SCCTMD funds will be used exclusively to benefit the assessees.

The activities paid for from assessment revenues are lodging business services creating special benefit to those businesses. In addition, these activities are not for the benefit of the general public and do not provide general benefit as defined above. All general benefits (if any) to the surrounding community and general public are intangible and unquantifiable. It is appropriate that these special business-related benefits be funded through business assessments.

C. Time and Manner for Collecting Assessments

The SCCTMD assessment will be implemented beginning July 1, 2010 and will continue for five (5) years. Each jurisdiction within the SCCTMD will be responsible for collecting assessments (including any delinquencies, penalties and interest) from each lodging business located in their respective jurisdiction. The County of Santa Cruz and the City of Capitola currently will collect

assessments on a monthly basis. The Cities of Santa Cruz, Scotts Valley and Watsonville currently will collect assessments on a quarterly basis. Assessments will be collected concurrently with TOT and shall be subject to any changes in each jurisdiction's TOT collection procedures. Each jurisdiction shall collect assessments in accordance with its own regulations and procedures consistent with the collection of TOT. Each jurisdiction will remit assessments on a quarterly basis to the Santa Cruz County Conference and Visitors Council (SCCCVC) which will have the responsibility to manage the TMD programs as provided in this district plan.

D. Service Plan Budget and Programs to be Provided:

Service Plan Budget Summary - Calendar Years 2010 - 2015

A summary of the annual service plan budget for the SCCTMD is provided on the following pages. The total five year improvement and service plan budget is projected at approximately \$1,142,683 annually, or \$5,713,415 through 2015.

E. Annual Service Plan:

A service plan budget has been developed to deliver services throughout the District. An annual service plan and budget will be developed and approved by the SCCCVC Board. Please see the budget exhibit below. The budget also includes a portion for contingencies and renewal of the District. Should the SCCCVC Board approve, funds may be appropriated for the renewal effort. If there are funds remaining at the end of the District term and lodging businesses choose to renew, these remaining funds could be transferred to the renewed District. If there are funds remaining at the end of the District and lodging businesses choose not to renew, any remaining funds will be spent consistent with this Plan or returned to assessed businesses in equal proportion to the assessment paid by each business.

F. Adjustments

The SCCCVC board has full authority to manage expenditures consistent with this Plan. Although actual revenues will fluctuate due to market conditions, the proportional allocations of the budget below shall remain the same. The SCCCVC board shall have the authority to adjust budget allocations between the categories below by no more than fifteen percent (15%) per year.

**Santa Cruz County Tourism Marketing District
Annual Budget, Years One through Five**

Services Provided	Total
Marketing and Promotions –75%	\$857,012.25
Communications and Public Relations – 15%	\$171,402.45
Administration and Operations - 8%	\$91,414.64
Jurisdictional Administration Fee – 1%	\$11,426.82
Reserve for Audit / Collections - .5%	\$5,713.42
Contingency and Renewal - .5%	\$5,713.42
Total Tourism District Annual Budget	\$1,142,683

Marketing and Promotions

Approximately 75% of the budget, or \$857,012.25 will be allocated to marketing and promotions efforts. All marketing and promotions activities will be designed and implemented with the goal of attracting overnight visitors during the non-summer season. Activities may include any or all of the following initiatives:

- Direct Advertising
- On-line/Web Based Promotional Programs
- Trade Shows/Sales Blitzes
- Familiarization Tours
- Collateral Material Development
- Professional Industry Conferences/Affiliation Fees
- Contract Consulting Fees
- Special Event Promotion Funding
- Visitor Services
- Research
- Staffing Costs

Communications and Public Relations

Approximately 15% of the budget, or \$171,402.42 will be allocated to the communications and public relations program, which will include:

- Public, Community and Media Relations
- Trade Shows/ Media Events

- Website Development
- Electronic Newsletters and On-line Marketing Programs
- Collateral Material Development
- Fam Tours
- Staffing Costs

Administration and Operations

Approximately 8% of the budget, or \$91,414.64 will be allocated to administration and operational expenses. These expenses may include:

- Staffing costs
- Legal and consulting fees
- Office space rental
- General administrative and operational costs

Jurisdictional Administration Fees

The County of Santa Cruz and each city will be paid 1% of the amount collected in their jurisdiction for its services in collecting and forwarding assessment monies. This amount will be retained by the collecting jurisdictions from the assessments collected. An additional .5% shall be reserved by the SCCVC and used to reimburse the County and Cities for the actual costs of auditing and delinquency collections, to the extent not covered by penalties and interest.

Delinquency, Penalty and Interest

Any lodging business that fails to remit any assessment imposed by the district within the time required shall pay penalties in accordance with the regulations and procedures established for TOT collections in each jurisdiction. Collecting jurisdictions shall be responsible for collecting delinquencies. Any penalty and interest fees shall be retained by the collecting jurisdiction to help offset the actual costs of such action.

Audits

The County of Santa Cruz shall perform or cause to be performed an audit of the books and records of the district not less than at the close of the second and fifth year of operations. Actual costs of such audit will be reimbursed by the SCCVC to the County and shall not exceed 1% of the total budget for each audit.

Contingency and Renewal

Approximately .5% of the budget, or \$5,713.42 shall be retained in a contingency fund. If there are contingency funds remaining at the expiration of the district, these funds may be used to renew the district.

VI. BID GOVERNANCE

A. Santa Cruz County Tourism Marketing District Governance

The SCCVC will serve as the Owners' Association for the SCCTMD.

B. Brown Act and Public Records Act Compliance

The Owner's Association of a TMD is considered a legislative body under the Ralph M. Brown Act (Government Code §54950 et seq.). Thus, meetings of the SCCVC board must be held in compliance with the public notice and other requirements of the Brown Act. The Owner's Association is also subject to the record keeping requirements of the California Public Records Act.

C. Annual Report

The SCCVC board shall present an annual report at the end of each year of operation to the Board of Supervisors pursuant to Streets and Highways Code §36650 (see Appendix 1).

**APPENDIX 1 – THE PROPERTY AND BUSINESS IMPROVEMENT
DISTRICT LAW OF 1994**

PROPERTY AND BUSINESS IMPROVEMENT DISTRICT LAW OF 1994
STREETS AND HIGHWAYS CODE
Division 18. Parking

*** THIS DOCUMENT IS CURRENT THROUGH 2009-2010 EXTRAORDINARY SESSIONS 1-5, ***
AND 7, AND URGENCY LEGISLATION THROUGH CH 4 OF THE 2010 REGULAR SESSION

§ 36600. Citation of part

This part shall be known and may be cited as the "Property and Business Improvement District Law of 1994."

§ 36601. Legislative findings and declarations

The Legislature finds and declares all of the following:

(a) Businesses located and operating within the business districts of this state's communities are economically disadvantaged, are underutilized, and are unable to attract customers due to inadequate facilities, services, and activities in the business districts.

(b) It is in the public interest to promote the economic revitalization and physical maintenance of the business districts of its cities in order to create jobs, attract new businesses, and prevent the erosion of the business districts.

(c) It is of particular local benefit to allow cities to fund business related improvements, maintenance, and activities through the levy of assessments upon the businesses or real property that benefits from those improvements.

(d) Assessments levied for the purpose of providing improvements and promoting activities that benefit real property or businesses are not taxes for the general benefit of a city, but are assessments for the improvements and activities which confer special benefits upon the real property or businesses for which the improvements and activities are provided.

§ 36602. Purpose of part

The purpose of this part is to supplement previously enacted provisions of law that authorize cities to levy assessments within a business improvement area. This part does not affect or limit any other provisions of law authorizing or providing for the furnishing of improvements or activities or the raising of revenue for these purposes.

§ 36603. Preemption of authority or charter city to adopt ordinances levying assessments

Nothing in this part is intended to preempt the authority of a charter city to adopt ordinances providing for a different method of levying assessments for similar or additional purposes from those set forth in this part. A property and business improvement district created pursuant to this part is expressly exempt from the provisions of the Special Assessment Investigation, Limitation and Majority Protest Act of 1931 (Division 4 (commencing with Section 2800)).

§ 36603.5. Part prevails over conflicting provisions

Any provision in this part that conflicts with any other provision of law shall prevail over the other provision of law.

§ 36604. Severability

This part is intended to be construed liberally and, if any provision is held invalid, the remaining provisions shall remain in full force and effect. Assessments levied under this part are not special taxes.

§ 36605. [Section repealed 2001.]

§ 36606. "Assessment"

"Assessment" means a levy for the purpose of acquiring, constructing, installing, or maintaining improvements and promoting activities which will benefit the properties or businesses located within a property and business improvement district.

§ 36607. "Business"

"Business" means all types of businesses and includes financial institutions and professions.

§ 36608. "City"

"City" means a city, county, city and county, or an agency or entity created pursuant to Article 1 (commencing with *Section 6500*) of *Chapter 5 of Division 7 of Title 1 of the Government Code*, the public member agencies of which includes only cities, counties, or a city and county.

§ 36609. "City council"

"City council" means the city council of a city or the board of supervisors of a county, or the agency, commission, or board created pursuant to a joint powers agreement and which is a city within the meaning of this part.

§ 36610. "Improvement"

"Improvement" means the acquisition, construction, installation, or maintenance of any tangible property with an estimated useful life of five years or more including, but not limited to, the following:

- (a) Parking facilities.
- (b) Benches, booths, kiosks, display cases, pedestrian shelters and signs.
- (c) Trash receptacles and public restrooms.
- (d) Lighting and heating facilities.
- (e) Decorations.
- (f) Parks.
- (g) Fountains.
- (h) Planting areas.
- (i) Closing, opening, widening, or narrowing of existing streets.
- (j) Facilities or equipment, or both, to enhance security of persons and property within the area.
- (k) Ramps, sidewalks, plazas, and pedestrian malls.
- (l) Rehabilitation or removal of existing structures.

§ 36611. "Property and business improvement district"; "District"

"Property and business improvement district," or "district," means a property and business improvement district established pursuant to this part.

§ 36612. "Property"

"Property" means real property situated within a district.

§ 36613. "Activities"

"Activities" means, but is not limited to, all of the following:

- (a) Promotion of public events which benefit businesses or real property in the district.
- (b) Furnishing of music in any public place within the district.

- (c) Promotion of tourism within the district.
- (d) Marketing and economic development, including retail retention and recruitment.
- (e) Providing security, sanitation, graffiti removal, street and sidewalk cleaning, and other municipal services supplemental to those normally provided by the municipality.
- (f) Activities which benefit businesses and real property located in the district.

§ 36614. "Management district plan"; "Plan"

"Management district plan" or "plan" means a proposal as defined in Section 36622.

§ 36614.5. "Owners' association"

"Owners' association" means a private nonprofit entity that is under contract with a city to administer or implement activities and improvements specified in the management district plan. An owners' association may be an existing nonprofit entity or a newly formed nonprofit entity. An owners' association is a private entity and may not be considered a public entity for any purpose, nor may its board members or staff be considered to be public officials for any purpose. Notwithstanding this section, an owners' association shall comply with the Ralph M. Brown Act (Chapter 9 (commencing with *Section 54950*) of *Part 1 of Division 2 of Title 5 of the Government Code*), at all times when matters within the subject matter of the district are heard, discussed, or deliberated, and with the California Public Records Act (Chapter 3.5 (commencing with *Section 6250*) of *Division 7 of Title 1 of the Government Code*), for all documents relating to activities of the district.

§ 36615. "Property owner"; "Owner"

"Property owner" or "owner" means any person shown as the owner of land on the last equalized assessment roll or otherwise known to be the owner of land by the city council. The city council has no obligation to obtain other information as to the ownership of land, and its determination of ownership shall be final and conclusive for the purposes of this part. Wherever this subdivision requires the signature of the property owner, the signature of the authorized agent of the property owner shall be sufficient.

§ 36616. "Tenant"

"Tenant" means an occupant pursuant to a lease of commercial space or a dwelling unit, other than an owner.

§ 36617. Alternate method of financing certain improvements and activities; Effect on other provisions

This part provides an alternative method of financing certain improvements and activities. The provisions of this part shall not affect or limit any other provisions of law authorizing or providing for the furnishing of improvements or activities or the raising of revenue for these

purposes. Every improvement area established pursuant to the Parking and Business Improvement Area Law of 1989 (Part 6 (commencing with Section 36500) of this division) is valid and effective and is unaffected by this part.

§ 36620. Establishment of property and business improvement district

A property and business improvement district may be established as provided in this chapter.

§ 36620.5. Requirement of consent of city council

A county may not form a district within the territorial jurisdiction of a city without the consent of the city council of that city. A city may not form a district within the unincorporated territory of a county without the consent of the board of supervisors of that county. A city may not form a district within the territorial jurisdiction of another city without the consent of the city council of the other city.

§ 36621. Initiation of proceedings; Petition of property or business owners in proposed district

(a) Upon the submission of a written petition, signed by the property or business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied, the city council may initiate proceedings to form a district by the adoption of a resolution expressing its intention to form a district. The amount of assessment attributable to property or a business owned by the same property or business owner that is in excess of 40 percent of the amount of all assessments proposed to be levied, shall not be included in determining whether the petition is signed by property or business owners who will pay more than 50 percent of the total amount of assessments proposed to be levied.

(b) The petition of property or business owners required under subdivision (a) shall include a summary of the management district plan. That summary shall include all of the following:

(1) A map showing the boundaries of the district.

(2) Information specifying where the complete management district plan can be obtained.

(3) Information specifying that the complete management district plan shall be furnished upon request.

(c) The resolution of intention described in subdivision (a) shall contain all of the following:

(1) A brief description of the proposed activities and improvements, the amount of the proposed assessment, a statement as to whether the assessment will be levied on property or businesses within the district, a statement as to whether bonds will be issued, and a description of the exterior boundaries of the proposed district. The descriptions and statements do not need to be detailed and shall be sufficient if they enable an owner to generally identify the nature and extent of the improvements and activities and the location and extent of the proposed district.

(2) A time and place for a public hearing on the establishment of the property and business improvement district and the levy of assessments, which shall be consistent with the requirements of Section 36623.

§ 36622. Contents of management district plan

The management district plan shall contain all of the following:

(a) A map of the district in sufficient detail to locate each parcel of property and, if businesses are to be assessed, each business within the district.

(b) The name of the proposed district.

(c) A description of the boundaries of the district, including the boundaries of benefit zones, proposed for establishment or extension in a manner sufficient to identify the affected lands and businesses included. The boundaries of a proposed property assessment district shall not overlap with the boundaries of another existing property assessment district created pursuant to this part. This part does not prohibit the boundaries of a district created pursuant to this part to overlap with other assessment districts established pursuant to other provisions of law, including, but not limited to, the Parking and Business Improvement Area Law of 1989 (Part 6 (commencing with Section 36500)). This part does not prohibit the boundaries of a business assessment district created pursuant to this part to overlap with another business assessment district created pursuant to this part. This part does not prohibit the boundaries of a business assessment district created pursuant to this part to overlap with a property assessment district created pursuant to this part.

(d) The improvements and activities proposed for each year of operation of the district and the maximum cost thereof.

(e) The total annual amount proposed to be expended for improvements, maintenance and operations, and debt service in each year of operation of the district.

(f) The proposed source or sources of financing, including the proposed method and basis of levying the assessment in sufficient detail to allow each property or business owner to calculate the amount of the assessment to be levied against his or her property or business. The plan also shall state whether bonds will be issued to finance improvements.

(g) The time and manner of collecting the assessments.

(h) The specific number of years in which assessments will be levied. In a new district, the maximum number of years shall be five. Upon renewal, a district shall have a term not to exceed 10 years. Notwithstanding these limitations, a district created pursuant to this part to finance capital improvements with bonds may levy assessments until the maximum maturity of the bonds. The management district plan may set forth specific increases in assessments for each year of operation of the district.

(i) The proposed time for implementation and completion of the management district plan.

(j) Any proposed rules and regulations to be applicable to the district.

(k) A list of the properties or businesses to be assessed, including the assessor's parcel numbers for properties to be assessed, and a statement of the method or methods by which the expenses of a district will be imposed upon benefited real property or businesses, in proportion to the benefit received by the property or business, to defray the cost thereof, including operation and maintenance. The plan may provide that all or any class or category of real property which is exempt by law from real property taxation may nevertheless be included within the boundaries of the district but shall not be subject to assessment on real property.

(l) Any other item or matter required to be incorporated therein by the city council.

§ 36623. Procedure to levy assessment

(a) If a city council proposes to levy a new or increased property assessment, the notice and protest and hearing procedure shall comply with *Section 53753 of the Government Code*.

(b) If a city council proposes to levy a new or increased business assessment, the notice and protest and hearing procedure shall comply with *Section 54954.6 of the Government Code*, except that notice shall be mailed to the owners of the businesses proposed to be assessed. A protest may be made orally or in writing by any interested person. Every written protest shall be filed with the clerk at or before the time fixed for the public hearing. The city council may waive any irregularity in the form or content of any written protest. A written protest may be withdrawn in writing at any time before the conclusion of the public hearing. Each written protest shall contain a description of the business in which the person subscribing the protest is interested sufficient to identify the business and, if a person subscribing is not shown on the official records of the city as the owner of the business, the protest shall contain or be accompanied by written evidence that the person subscribing is the owner of the business. A written protest which does not comply with this section shall not be counted in determining a majority protest. If written protests are received from the owners of businesses in the proposed district which will pay 50 percent or more of the assessments proposed to be levied and protests are not withdrawn so as to reduce the protests to less than 50 percent, no further proceedings to levy the proposed assessment against such businesses, as contained in the resolution of intention, shall be taken for a period of one year from the date of the finding of a majority protest by the city council.

§ 36624. Changes to proposed assessments

At the conclusion of the public hearing to establish the district, the city council may adopt, revise, change, reduce, or modify the proposed assessment or the type or types of improvements and activities to be funded with the revenues from the assessments. Proposed assessments may only be revised by reducing any or all of them. At the public hearing, the city council may only make changes in, to, or from the boundaries of the proposed property and business improvement district that will exclude territory that will not benefit from the proposed improvements or activities. Any modifications, revisions, reductions, or changes to the proposed assessment district shall be reflected in the notice and map recorded pursuant to Section 36627.

§ 36625. Resolution of formation

(a) If the city council, following the public hearing, decides to establish the proposed property and business improvement district, the city council shall adopt a resolution of formation that shall contain all of the following:

(1) A brief description of the proposed activities and improvements, the amount of the proposed assessment, a statement as to whether the assessment will be levied on property or businesses within the district, a statement about whether bonds will be issued, and a description of the exterior boundaries of the proposed district. The descriptions and statements do not need

to be detailed and shall be sufficient if they enable an owner to generally identify the nature and extent of the improvements and activities and the location and extent of the proposed district.

(2) The number, date of adoption, and title of the resolution of intention.

(3) The time and place where the public hearing was held concerning the establishment of the district.

(4) A determination regarding any protests received. The city shall not establish the district or levy assessments if a majority protest was received.

(5) A statement that the properties or businesses in the district established by the resolution shall be subject to any amendments to this part.

(6) A statement that the improvements and activities to be provided in the district will be funded by the levy of the assessments. The revenue from the levy of assessments within a district shall not be used to provide improvements or activities outside the district or for any purpose other than the purposes specified in the resolution of intention, as modified by the city council at the hearing concerning establishment of the district.

(7) A finding that the property or businesses within the area of the property and business improvement district will be benefited by the improvements and activities funded by the assessments proposed to be levied.

(b) The adoption of the resolution of formation and recordation of the notice and map pursuant to Section 36627 shall constitute the levy of an assessment in each of the fiscal years referred to in the management district plan.

§ 36626. Resolution establishing district

If the city council, following the public hearing, desires to establish the proposed property and business improvement district, and the city council has not made changes pursuant to Section 36624, or has made changes that do not substantially change the proposed assessment, the city council shall adopt a resolution establishing the district. The resolution shall contain all of the information specified in paragraphs (1) to (8), inclusive, of subdivision (b) of Section 36625, but need not contain information about the preliminary resolution if none has been adopted.

§ 36626.5. [Section repealed 1999.]

§ 36626.6. [Section repealed 1999.]

§ 36626.7. [Section repealed 1999.]

§ 36627. Notice and assessment diagram

Following adoption of the resolution establishing the district pursuant to Section 36625 or 36626, the clerk of the city shall record a notice and an assessment diagram pursuant to Section 3114. If the assessment is levied on businesses, the text of the recorded notice shall be modified to reflect that the assessment will be levied on businesses, or specified categories of businesses,

within the area of the district. No other provision of Division 4.5 (commencing with Section 3100) applies to an assessment district created pursuant to this part.

§ 36628. Establishment of separate benefit zones within district; Categories of businesses

The city council may establish one or more separate benefit zones within the district based upon the degree of benefit derived from the improvements or activities to be provided within the benefit zone and may impose a different assessment within each benefit zone. If the assessment is to be levied on businesses, the city council may also define categories of businesses based upon the degree of benefit that each will derive from the improvements or activities to be provided within the district and may impose a different assessment or rate of assessment on each category of business, or on each category of business within each zone.

§ 36628.5. Assessments on businesses or property owners

The city council may levy assessments on businesses or on property owners, or a combination of the two, pursuant to this part. The city council shall structure the assessments in whatever manner it determines corresponds with the distribution of benefits from the proposed improvements and activities.

§ 36629. Provisions and procedures applicable to benefit zones and business categories

All provisions of this part applicable to the establishment, modification, or disestablishment of a property and business improvement district apply to the establishment, modification, or disestablishment of benefit zones or categories of business. The city council shall, to establish, modify, or disestablish a benefit zone or category of business, follow the procedure to establish, modify, or disestablish a parking and business improvement area.

§ 36630. Expiration of district; Creation of new district

If a property and business improvement district expires due to the time limit set pursuant to subdivision (h) of Section 36622, a new management district plan may be created and a new district established pursuant to this part.

§ 36631. Time and manner of collection of assessments; Delinquent payments

The collection of the assessments levied pursuant to this part shall be made at the time and in the manner set forth by the city council in the resolution establishing the management district plan described in Section 36622. Assessments levied on real property may be collected at the same time and in the same manner as for the ad valorem property tax, and may provide for the same lien priority and penalties for delinquent payment. All delinquent payments for assessments levied pursuant to this part shall be charged interest and penalties.

§ 36632. Assessments to be based on estimated benefit; Classification of real property and businesses; Exclusion of residential and agricultural property

(a) The assessments levied on real property pursuant to this part shall be levied on the basis of the estimated benefit to the real property within the property and business improvement district. The city council may classify properties for purposes of determining the benefit to property of the improvements and activities provided pursuant to this part.

(b) Assessments levied on businesses pursuant to this part shall be levied on the basis of the estimated benefit to the businesses within the property and business improvement district. The city council may classify businesses for purposes of determining the benefit to the businesses of the improvements and activities provided pursuant to this part.

(c) Properties zoned solely for residential use, or that are zoned for agricultural use, are conclusively presumed not to benefit from the improvements and service funded through these assessments, and shall not be subject to any assessment pursuant to this part.

§ 36633. Time for contesting validity of assessment

The validity of an assessment levied under this part shall not be contested in any action or proceeding unless the action or proceeding is commenced within 30 days after the resolution levying the assessment is adopted pursuant to Section 36626. Any appeal from a final judgment in an action or proceeding shall be perfected within 30 days after the entry of judgment.

§ 36634. Service contracts authorized to establish levels of city services

The city council may execute baseline service contracts that would establish levels of city services that would continue after a property and business improvement district has been formed.

§ 36635. Request to modify management district plan

The owners' association may, at any time, request that the city council modify the management district plan. Any modification of the management district plan shall be made pursuant to this chapter.

§ 36636. Modification of plan by resolution after public hearing; Adoption of resolution of intention; Modification of improvements and activities by adoption of resolution after public hearing

(a) Upon the written request of the owners' association, the city council may modify the management district plan after conducting one public hearing on the proposed modifications. The city council may modify the improvements and activities to be funded with the revenue derived from the levy of the assessments by adopting a resolution determining to make the modifications after holding a public hearing on the proposed modifications. If the modification includes the levy of a new or increased assessment, the city council shall comply with Section 36623 . Notice of all other public meetings and public hearings pursuant to this section shall comply with both of the following:

(1) The resolution of intention shall be published in a newspaper of general circulation in the city once at least seven days before the public meeting.

(2) A complete copy of the resolution of intention shall be mailed by first class mail, at least 10 days before the public meeting, to each business owner or property owner affected by the proposed modification.

(b) The city council shall adopt a resolution of intention which states the proposed modification prior to the public hearing required by this section. The public hearing shall be held not more than 90 days after the adoption of the resolution of intention.

§ 36637. Reflection of modification in notices recorded and maps

Any subsequent modification of the resolution shall be reflected in subsequent notices and maps recorded pursuant to Division 4.5 (commencing with Section 3100), in a manner consistent with the provisions of Section 36627.

§ 36640. Bonds authorized; Procedure; Restriction on reduction or termination of assessments

(a) The city council may, by resolution, determine and declare that bonds shall be issued to finance the estimated cost of some or all of the proposed improvements described in the resolution of formation adopted pursuant to Section 36625, if the resolution of formation adopted pursuant to that section provides for the issuance of bonds, under the Improvement Bond Act of 1915 (Division 10 (commencing with Section 8500)) or in conjunction with Marks-Roos Local Bond Pooling Act of 1985 (Article 4 (commencing with *Section 6584*) of *Chapter 5 of Division 7 of Title 1 of the Government Code*). Either act, as the case may be, shall govern the proceedings relating to the issuance of bonds, although proceedings under the Bond Act of 1915 may be modified by the city council as necessary to accommodate assessments levied upon business pursuant to this part.

(b) The resolution adopted pursuant to subdivision (a) shall generally describe the proposed improvements specified in the resolution of formation adopted pursuant to Section 36625, set forth the estimated cost of those improvements, specify the number of annual installments and the fiscal years during which they are to be collected. The amount of debt service to retire the bonds shall not exceed the amount of revenue estimated to be raised from assessments over 30 years.

(c) Notwithstanding any other provision of this part, assessments levied to pay the principal and interest on any bond issued pursuant to this section shall not be reduced or terminated if doing so would interfere with the timely retirement of the debt.

§ 36641. [Section repealed 2001.]

§ 36642. [Section repealed 2001.]

§ 36643. [Section repealed 2001.]

§ 36650. Report by owners' association; Approval or modification by city council

(a) The owners' association shall cause to be prepared a report for each fiscal year, except the first year, for which assessments are to be levied and collected to pay the costs of the improvements and activities described in the report. The owners' association's first report shall be due after the first year of operation of the district. The report may propose changes, including, but not limited to, the boundaries of the property and business improvement district or any benefit zones within the district, the basis and method of levying the assessments, and any changes in the classification of property, including any categories of business, if a classification is used.

(b) The report shall be filed with the clerk and shall refer to the property and business improvement district by name, specify the fiscal year to which the report applies, and, with respect to that fiscal year, shall contain all of the following information:

(1) Any proposed changes in the boundaries of the property and business improvement district or in any benefit zones or classification of property or businesses within the district.

(2) The improvements and activities to be provided for that fiscal year.

(3) An estimate of the cost of providing the improvements and the activities for that fiscal year.

(4) The method and basis of levying the assessment in sufficient detail to allow each real property or business owner, as appropriate, to estimate the amount of the assessment to be levied against his or her property or business for that fiscal year.

(5) The amount of any surplus or deficit revenues to be carried over from a previous fiscal year.

(6) The amount of any contributions to be made from sources other than assessments levied pursuant to this part.

(c) The city council may approve the report as filed by the owners' association or may modify any particular contained in the report and approve it as modified. Any modification shall be made pursuant to Sections 36635 and 36636.

The city council shall not approve a change in the basis and method of levying assessments that would impair an authorized or executed contract to be paid from the revenues derived from the levy of assessments, including any commitment to pay principal and interest on any bonds issued on behalf of the district.

§ 36651. Designation of owners' association to provide improvements and activities

The management district plan may, but is not required to, state that an owners' association will provide the improvements or activities described in the management district plan. If the management district plan designates an owners' association, the city shall contract with the designated nonprofit corporation to provide services.

§ 36660. Renewal of district; Transfer or refund of remaining revenues; District term limit

(a) Any district previously established whose term has expired, may be renewed by following the procedures for establishment as provided in this chapter.

(b) Upon renewal, any remaining revenues derived from the levy of assessments, or any revenues derived from the sale of assets acquired with the revenues, shall be transferred to the renewed district. If the renewed district includes additional parcels or businesses not included in the prior district, the remaining revenues shall be spent to benefit only the parcels or businesses in the prior district. If the renewed district does not include parcels or businesses included in the prior district, the remaining revenues attributable to these parcels shall be refunded to the owners of these parcels or businesses.

(c) Upon renewal, a district shall have a term not to exceed 10 years, or, if the district is authorized to issue bonds, until the maximum maturity of those bonds. There is no requirement that the boundaries, assessments, improvements, or activities of a renewed district be the same as the original or prior district.

§ 36670. Circumstances permitting disestablishment of district; Procedure

(a) Any district established or extended pursuant to the provisions of this part, where there is no indebtedness, outstanding and unpaid, incurred to accomplish any of the purposes of the district, may be disestablished by resolution by the city council in either of the following circumstances:

(1) If the city council finds there has been misappropriation of funds, malfeasance, or a violation of law in connection with the management of the district, it shall notice a hearing on disestablishment.

(2) During the operation of the district, there shall be a 30-day period each year in which assesses may request disestablishment of the district. The first such period shall begin one year after the date of establishment of the district and shall continue for 30 days. The next such 30-day period shall begin two years after the date of the establishment of the district. Each successive year of operation of the district shall have such a 30-day period. Upon the written petition of the owners of real property or of businesses in the area who pay 50 percent or more of the assessments levied, the city council shall pass a resolution of intention to disestablish the district. The city council shall notice a hearing on disestablishment.

(b) The city council shall adopt a resolution of intention to disestablish the district prior to the public hearing required by this section. The resolution shall state the reason for the disestablishment, shall state the time and place of the public hearing, and shall contain a proposal to dispose of any assets acquired with the revenues of the assessments levied within the property and business improvement district. The notice of the hearing on disestablishment required by this section shall be given by mail to the property owner of each parcel or to the owner of each business subject to assessment in the district, as appropriate. The city shall conduct the public hearing not less than 30 days after mailing the notice to the property or business owners. The public hearing shall be held not more than 60 days after the adoption of the resolution of intention.

§ 36671. Refund of remaining revenues upon disestablishment of district; Calculation of refund; Use of outstanding revenue collected after disestablishment of district

(a) Upon the disestablishment of a district, any remaining revenues, after all outstanding debts are paid, derived from the levy of assessments, or derived from the sale of assets acquired with the revenues, or from bond reserve or construction funds, shall be refunded to the owners of the property or businesses then located and operating within the district in which assessments were levied by applying the same method and basis that was used to calculate the assessments levied in the fiscal year in which the district is disestablished. All outstanding assessment revenue collected after disestablishment shall be spent on improvements and activities specified in the management district plan.

(b) If the disestablishment occurs before an assessment is levied for the fiscal year, the method and basis that was used to calculate the assessments levied in the immediate prior fiscal year shall be used to calculate the amount of any refund.

APPENDIX 2 – LODGING BUSINESSES TO BE ASSESSED WITHIN THE SCCTMD

Company Name	Street Address	City	Jurisdiction	Number of Units
Capitola Hotel	210 Esplanade	Capitola	Capitola	10
Harbor Lights Motel	5000 Cliff Drive	Capitola	Capitola	10
Monarch Cove Inn/El Salto Resort	620 El Salto Drive	Capitola	Capitola	10
Inn at Depot Hill	250 Monterey Avenue	Capitola	Capitola	12
Capitola Venetian Hotel	1500 Wharf Road	Capitola	Capitola	20
Capitola Inn	822 Bay Avenue	Capitola	Capitola	56
Best Western Capitola-By-the-Sea Inn & Suites	1435 41st Avenue	Capitola	Capitola	57
Apple Lane Inn	6265 Soquel Drive	Aptos	County of Santa Cruz	5
Fairview Manor	245 Fairview Avenue	Ben Lomond	County of Santa Cruz	5
Flora Vista Inn	1258 San Andreas Road	La Selva Beach	County of Santa Cruz	5
Historic Sand Rock Farm	6901 Freedom Boulevard	Aptos	County of Santa Cruz	5
Beach Bungalow Vacation Rentals	Various locations	Capitola & Santa Cruz	County of Santa Cruz	8
Pelican Point Inn	2-1345 East Cliff Drive	Santa Cruz	County of Santa Cruz	9
Bella Notte Inn	21305 East Cliff Drive	Santa Cruz	County of Santa Cruz	10
Jaye's Timberlane Resort	8705 Hwy. 9	Ben Lomond	County of Santa Cruz	10
Merrybrook Lodge	13420 Big Basin Way	Boulder Creek	County of Santa Cruz	10
Bayview Hotel Bed & Breakfast	8041 Soquel Drive	Aptos	County of Santa Cruz	12
Davenport Roadhouse Inn	1 Davenport Ave.	Davenport	County of Santa Cruz	12
Sunny Cove Motel	2-1610 East Cliff Dr.	Santa Cruz	County of Santa Cruz	13
Fern River Resort Motel	5250 Hwy. 9	Felton	County of Santa Cruz	14
Ocean Echo Inn & Beach Cottages	401 Johans Beach Drive	Santa Cruz	County of Santa Cruz	15
Harbor Inn	645 7th Ave.	Santa Cruz	County of Santa Cruz	19

Boulder Creek Lodge & Conference Ctr.	16901 Big Basin Hwy. (at the Boulder Creek Golf & Country Club)	Boulder Creek	County of Santa Cruz	20
Monterey Bay Realty	113 Venetian	Aptos	County of Santa Cruz	20
Santa Cruz Inn	2950 Soquel Ave.	Santa Cruz	County of Santa Cruz	20
Quality Inn & Suites Santa Cruz Mountains	9733 Highway 9	Ben Lomond	County of Santa Cruz	25
Brookdale Inn & Spa	11570 Hwy. 9	Brookdale	County of Santa Cruz	47
Rio Sands Motel	116 Aptos Beach Drive	Aptos	County of Santa Cruz	50
At the Dunes	2661 Beach Road	Watsonville	County of Santa Cruz	65
A House In Santa Cruz.com	Various Locations	Santa Cruz County	County of Santa Cruz	80
Pajaro Dunes Company	105 Shell Drive	Pajaro Dunes	County of Santa Cruz	130
Best Western Seacliff Inn	7500 Old Dominion Court	Aptos	County of Santa Cruz	149
Chaminade Resort & Spa	One Chaminade Lane	Santa Cruz	County of Santa Cruz	156
Seascape Beach Resort - Monterey Bay	1 Seascape Resort Drive	Aptos	County of Santa Cruz	250
Beach House Rentals	Capitola, Aptos & Santa Cruz	Santa Cruz County	County of Santa Cruz/City of Santa Cruz	60
aGreatPlaceToStay.net	Santa Cruz, Capitola, Aptos	Santa Cruz County	County of Santa Cruz/City of Santa Cruz	70
Bailey Property Management & Vacation Rentals	106 Aptos Beach Drive	Aptos	County of Santa Cruz/City of Santa Cruz	75
Cheshire Rio Realty and Property Management	107 Aptos Beach Drive	Aptos	County of Santa Cruz/City of Santa Cruz	85
Kendall & Potter Property Management	783 Rio Del Mar Blvd., Suite 7	Aptos	County of Santa Cruz/City of Santa Cruz	85
Bed & Breakfast Inns of Santa Cruz County	Various Locations	Santa Cruz County	Other	
Praful Patel Properties	500 Ocean Street	Santa Cruz	Other	
Santa Cruz Hotel Group	Various locations	Santa Cruz County	Other	

A Best Kept Secret - The Breakers Beachfront Condos	305 Beach Street	Santa Cruz	Santa Cruz	6
Cliff Crest Bed & Breakfast Inn	407 Cliff Street	Santa Cruz	Santa Cruz	6
Surfside Apartments	311 Cliff Street	Santa Cruz	Santa Cruz	7
The Darling House	314 West Cliff Drive	Santa Cruz	Santa Cruz	7
Boca del Cielo	118 First Street	Santa Cruz	Santa Cruz	8
Pacific Blue Inn	636 Pacific Ave	Santa Cruz	Santa Cruz	9
West Cliff Inn	174 West Cliff Drive	Santa Cruz	Santa Cruz	9
Hinds Victorian Guest House	529 Chestnut Street	Santa Cruz	Santa Cruz	10
Babbling Brook Inn Bed & Breakfast	1025 Laurel St.	Santa Cruz	Santa Cruz	13
Budget Inn Motel	110 San Lorenzo Boulevard	Santa Cruz	Santa Cruz	16
Capri Motel	337 Riverside Avenue	Santa Cruz	Santa Cruz	17
Edgewater Beach Motel	525 Second Street	Santa Cruz	Santa Cruz	17
Howard Johnson Inn, Santa Cruz Fisherman's Wharf	130 West Cliff Drive	Santa Cruz	Santa Cruz	20
Lanai Lodge Boardwalk	550 Second Street	Santa Cruz	Santa Cruz	20
America's Best Value Inn - City Center/The Islander Motel	522 Ocean Street	Santa Cruz	Santa Cruz	22
Beachview Inn	50 Front Street	Santa Cruz	Santa Cruz	22
Big Six Motel	335 Riverside Avenue	Santa Cruz	Santa Cruz	22
Sea & Sand Inn	201 West Cliff Drive	Santa Cruz	Santa Cruz	22
Seaway Inn	176 West Cliff Drive	Santa Cruz	Santa Cruz	23
Super 8 Motel - West	321 Riverside Avenue	Santa Cruz	Santa Cruz	23
Super 8 Motel - East	338 Riverside Avenue	Santa Cruz	Santa Cruz	24
Americas Best Value Inn & Suites	505 Riverside Avenue	Santa Cruz	Santa Cruz	25
National 9 Motel - Santa Cruz	1015 Ocean St	Santa Cruz	Santa Cruz	25
National 9 Motel - Silver Sands	130 Plymouth Street	Santa Cruz	Santa Cruz	25
Ocean Gate Inn	111 Ocean Street	Santa Cruz	Santa Cruz	25
Knights Inn	510 Leibrandt Avenue	Santa Cruz	Santa Cruz	26
Paradise Inn	311 Second Street	Santa Cruz	Santa Cruz	26
Sea Breeze Inn	204 Second Street	Santa Cruz	Santa Cruz	26
Best Western Inn - Santa Cruz	126 Plymouth Street	Santa Cruz	Santa Cruz	28
Comfort Inn - Beach/Boardwalk	314 Riverside Ave.	Santa Cruz	Santa Cruz	28
Coastview Inn	301 Beach Street	Santa Cruz	Santa Cruz	30
Hitching Post Motel	1717 Soquel Avenue	Santa Cruz	Santa Cruz	31
Sunset Inn	2424 Mission Street	Santa Cruz	Santa Cruz	32
Carousel Motel	110 Riverside Avenue	Santa Cruz	Santa Cruz	34
Casa Blanca Inn	101 Main Street at Beach	Santa Cruz	Santa Cruz	34
Guesthouse Pacific Inn	330 Ocean Street	Santa Cruz	Santa Cruz	37
Bay Front Inn	325 Pacific Avenue	Santa Cruz	Santa Cruz	38
Torch Lite Inn	500 Riverside Avenue	Santa Cruz	Santa Cruz	38

Terrace Court Motel	125 Beach Street	Santa Cruz	Santa Cruz	40
Quality Inn	1101 Ocean Street	Santa Cruz	Santa Cruz	42
Hostelling International - Santa Cruz	321 Main Street	Santa Cruz	Santa Cruz	45
Hampton Inn	1505 Ocean Street	Santa Cruz	Santa Cruz	46
Continental Inn	414 Ocean Street	Santa Cruz	Santa Cruz	49
Ramada Limited-Water	516 Water Street	Santa Cruz	Santa Cruz	50
Mission Inn	2250 Mission St.	Santa Cruz	Santa Cruz	53
Inn at Pasatiempo	555 Hwy 17	Santa Cruz	Santa Cruz	54
Santa Cruz Travelodge	525 Ocean Street	Santa Cruz	Santa Cruz	55
Ocean Pacific Lodge	301 Pacific Ave.	Santa Cruz	Santa Cruz	56
Comfort Inn - Santa Cruz	110 Plymouth Street	Santa Cruz	Santa Cruz	62
Motel Santa Cruz	370 Ocean Street	Santa Cruz	Santa Cruz	62
Travelodge Riviera	619 Riverside Ave.	Santa Cruz	Santa Cruz	63
All Suites Inn Best Western	500 Ocean Street	Santa Cruz	Santa Cruz	77
Santa Cruz Beach Inn	600 Riverside Avenue	Santa Cruz	Santa Cruz	79
Holiday Inn Express & Suites - Santa Cruz East	1410 Ocean Street	Santa Cruz	Santa Cruz	100
Santa Cruz Dream Inn	175 West Cliff Drive	Santa Cruz	Santa Cruz	165
University Inn & Conference Center	611 Ocean Street	Santa Cruz	Santa Cruz	172
Best Western Inn - Scotts Valley	6020 Scotts Valley Dr.	Scotts Valley	Scotts Valley	58
Hilton Santa Cruz / Scotts Valley	6001 La Madrona Drive	Santa Cruz	Scotts Valley	174
National 9 Motel - Watsonville	1 Western Drive	Watsonville	Watsonville	18
Valley Inn	970 Main St.	Watsonville	Watsonville	23
America's Best Value Inn - Watsonville	781 Freedom Blvd.	Watsonville	Watsonville	28
Economy Inn	584 Auto Center Drive	Watsonville	Watsonville	30
Comfort Inn - Watsonville	112 Airport Boulevard	Freedom	Watsonville	41
Best Western Rose Garden Inn	740 Freedom Boulevard	Watsonville	Watsonville	46
Holiday Inn Express Hotel & Suites	1855 Main Street	Watsonville	Watsonville	64
Best of Pajaro	101 Shell Drive	Watsonville	Watsonville	75
Red Roof Inn, Watsonville	1620 W. Beach Street	Watsonville	Watsonville	95
Motel 6 - Watsonville	125 Silver Leaf Drive	Watsonville	Watsonville	124

RESOLUTION NO. NS-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
GRANTING CONSENT TO THE COUNTY OF SANTA CRUZ TO FORM
THE SANTA CRUZ COUNTY TOURISM MARKETING DISTRICT

WHEREAS, the County of Santa Cruz is beginning the process to form a Santa Cruz County Tourism Marketing District (SCCTMD) pursuant to the Property and Business Improvement District Law of 1994, Streets and Highways Code Section 36600 et seq., to promote tourism and the lodging businesses in Santa Cruz County; and

WHEREAS, the Board of Supervisors of the County of Santa Cruz has requested consent to form the SCCTMD in the City of Santa Cruz with adoption of Santa Cruz Board of Supervisors Resolution No. 91-2010 dated April 20, 2010.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Santa Cruz, that:

Section 1: The above recitals are true and correct.

Section 2: The City Council consents to the County of Santa Cruz forming the SCCTMD, which shall include the City of Santa Cruz.

Section 3: The Clerk of the City Council is hereby directed to transmit a certified copy of this resolution to the Clerk of the County of Santa Cruz Board of Supervisors.

Section 4: This resolution is effective upon its adoption.

PASSED AND ADOPTED this 27th day of April, 2010, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

APPROVED: _____
Mayor

ATTEST: _____
City Clerk



CITY COUNCIL AGENDA REPORT

DATE: April 16, 2010

AGENDA OF: April 27, 2010

DEPARTMENT: City Council

SUBJECT: Rail Acquisition - Council Guidance to Santa Cruz County Regional Transportation Commission Representative, Councilmember Lane. (CN)

RECOMMENDATION: Motion providing Councilmember Lane guidance with respect to the May 6th Santa Cruz County Regional Transportation Committee vote on acquisition of the Santa Cruz Branch rail line.

BACKGROUND: For many years, our community has worked toward acquisition of the Santa Cruz Branch rail line from Union Pacific in order to preserve the corridor for a range of transportation needs. Among the most important of those needs are:

- preservation of freight service to minimize heavy truck traffic on local roads;
- increase in recreational rail service that will benefit our local tourism industry and provide community visitors with an alternative to the use of private automobiles; and
- preservation of the opportunity to use the rail corridor for a variety of transportation options including passenger train service, trolley service, bus rapid transit, and bicycle and pedestrian paths.

In 1990, the voters of the state of California approved a bond measure allocating \$10.2 million for the acquisition of the rail line. These funds must be committed by the California Transportation Commission (CTC) by June 30, 2010 or the funds will be released for use on other projects. The Santa Cruz County Regional Transportation Commission (SCCRTC) and its staff have been working diligently to put the complex pieces of the purchase transaction together in order to meet that deadline. Now that the pieces of this puzzle are in place, the SCCRTC will make a final decision on whether or not to move forward with the purchase. This vote will take place at the SCCRTC meeting on May 6, 2010.

DISCUSSION: As you know, I have been supportive of the SCCRTC's efforts to complete the rail line acquisition. As the SCCRTC approaches its final decision, I request that the Council receive public comment and provide guidance to me, as the Council's representative on the SCCRTC, prior to the May 6 vote.

I recommend that the City Council adopt a motion supporting SCCRTC acquisition of the Santa Cruz Branch rail line and instructing our representative to SCCRTC to vote in favor of the acquisition.

I further recommend that the City Council ask the Mayor to send a letter to the California Transportation Commission advocating approval of funding for this purchase and highlighting the importance of maintaining this line for rail and other transportation purposes.

Lastly, I recommend that the Redevelopment Agency direct our Executive Director to send a letter to the CTC highlighting the value of preservation of the rail line as a contributor to the economic health of our community and supporting CTC funding of the rail line purchase.

FISCAL IMPACT: There is no fiscal impact.

Submitted by:

Don Lane
Councilmember

Attachment: SCCRTC Executive Director George Dondero's staff recommendation on the acquisition of the Santa Cruz Branch Rail Line.

TO: Regional Transportation Commission (RTC)
FROM: George Dondero, Executive Director
RE: Santa Cruz Branch Rail Line Acquisition –
Executive Director’s Recommendation

RECOMMENDATIONS

The Executive Director recommends that the Regional Transportation Commission (RTC):

1. Enter into a purchase and sale agreement with Union Pacific (UP) to acquire the Santa Cruz Branch Rail Line (Branch Line) for a total cost of \$19.2 million, with \$14.2 million to be paid to Union Pacific and at least \$5 million of improvements to be made to the structures and other components of the Branch Line;
 2. Enter into an administration and coordination agreement with a short line operator for continued freight operations, and recreational rail service between Santa Cruz and Davenport; and
 3. Release the draft agreements and the remainder of the due diligence reports for a 30-day public review period with the exception of the lease analysis report.
-

As communicated in the staff report provided in the agenda packet for this item, due to the very limited options to accommodate the travel needs of most of the County’s population and activity centers along a narrow coastal shelf between Watsonville and Santa Cruz, the RTC has been working to make more effective use of existing transportation corridors including the Santa Cruz Branch Rail Line (Branch Line). The only way for the community to more effectively use the Branch Line for transportation is through public ownership. For these reasons, it is recommended that the RTC proceed with acquisition of this 32 mile, 300 acre continuous transportation corridor.

Since 2001, the RTC has been negotiating with the current owner of the Branch Line, Union Pacific Railroad (UP), and undertaking a comprehensive, thorough and detailed assessment of the Branch Line for possible purchase. The assessment includes appraisals, hazardous materials investigations and inspections.

Appraisal Reports

For railroad purchases, in order to determine the highest and best use of the property and a fair price, Caltrans requires that the value of the property be assessed using a variety of methods. Caltrans Right of Way division provides analysis and recommendations to the California Transportation Commission (CTC) when a public agency seeks to purchase railroad property using state transportation funds. The RTC’s appraisal reports indicate value

assessments with a range of \$363,930 for the freight business, to \$33.3 million for the depreciated value of the railroad assets at a Federal Railroad Administration (FRA) Class 1 service level. Due to the level of freight business on the Branch Line, especially after the closure of the CEMEX cement plant, the appraisers determined that the highest and best use for the property is achieved through liquidation for other uses.

The net liquidation value was assessed by two different firms in 2004 and in 2007, with a third assessment completed in 2010. The first assessment by Arthur Gimmy International estimated the net liquidation value at \$6.5 million using a valuation date of March 1, 2004 and applying a value to only 31% of the property, due to a variety of title issues. The second assessment conducted by the firm of Colliers Pinkard used a valuation date of December 12, 2007, discounted to September 4, 2009, and applied the marketable parcels ratio (31%) from the first assessment. Colliers Pinkard arrived at a net liquidation value of \$14.3 million. In March 2010, Sierra West Valuation (no relation to shortline operators Sierra Northern) completed a review appraisal report, which analyzed and updated all of the appraisal work, and concluded with a net liquidation value of \$12.275 million and the statement, "...at either \$14,300,000 or \$12,275,000 the Santa Cruz Branch Line is a bargain for the general public while meeting the requirement of 'fair and reasonable price' to be paid the railroad."

Environmental Assessment

In 1997, consulting firm Geomatrix completed a Phase I Environmental Site Assessment (ESA) of the Branch Line for the RTC. The Phase I ESA investigated the history of the Branch Line and assessed the property for locations with potential environmental concerns. Based on the 1997 Phase I ESA and site reconnaissance, Geomatrix completed soil sampling and analysis for 54 locations at varying depths in 2005 and recommended additional soil sampling. In 2009, AMEC Geomatrix completed soil sampling and analysis at an additional 49 locations. The December 2009 report produced by AMEC Geomatrix includes the analysis of all soil samples and a human health risk assessment for arsenic, a chemical element used in pesticides, herbicides, insecticides that also occurs naturally in Santa Cruz County area soils.

Soil sampling was used to establish a background level for arsenic and analyze areas that exceed that background level. The report concludes that there are elevated levels of arsenic present along the branch line likely due to the use of herbicides by the railroad and adjacent farms. Using a conservative approach of risk to construction workers and recreational users of the property, the human health risk assessment concludes, "...potential exposures to arsenic in soil are not significantly different than naturally occurring levels." In addition to arsenic, lead and chromium were "detected at some locations at concentrations that could require special handling during construction activities." Therefore, the report recommends, "a management plan to address arsenic-containing soil during future construction." The management plan would include soil excavation, sampling, analysis, stockpiling and disposal procedures and construction monitoring guidelines. Because arsenic is commonly found in this area, many jurisdictions require similar management plans to minimize the disturbance of these elements during construction activities

The Phase II ESA also discovered petroleum-based contamination at one location in the Watsonville area resulting from a discharge by a business adjacent to the Branch Line. UP

has been working with that adjoining business to clean the location. According to various consultants, this rail line is considered relatively clean, considering what is often found at many other rail lines.

Inspections

In 2005 and 2006, the RTC hired structural engineers to complete inspections of the bridges and other structures along the Branch Line. These inspections concluded that improvements to some of the structures are needed. The estimated cost of those improvements was updated in April 2008 to a range of \$3.9 to \$5.4 million. In 2009, the RTC completed a track inspection to get a thorough assessment of the condition of the track and roadbed, as well as the maintenance and capital improvement needs. The inspection concludes that the Branch Line can be maintained at the current level of service (with CEMEX in operation) with a maintenance cost of \$370,000 annually by a short line operator.

Business Plan

In 2004, the RTC completed a draft business plan for the Branch Line with the cement plant in operation and recreational rail service between Capitola and Seascape. In December 2008, the RTC completed another business plan that included only freight operations under different arrangements. Due to the recent closure of the CEMEX cement plant and the interest of the short line operator to provide recreational rail service between Santa Cruz and Davenport, RTC consultants completed an additional business analysis for the Branch Line in March 2010. The business plan includes revenues and expenditures for the RTC, a freight operation and recreational rail operation under four different scenarios.

The RTC has been negotiating Scenario 1 in which there are limited freight operations and recreational rail service between Santa Cruz and Davenport. Under this scenario, the RTC will derive revenue from real estate leases and short line rail operations. In the first three years, the estimated revenues derived by RTC are not projected to cover the estimated costs associated with the Branch Line. As the RTC updates existing leases and develops new leases, more revenue will be derived, as is currently the case with the Transportation Agency in Monterey County’s revenues from their branch rail line acquisition. The lease analysis for the Santa Cruz Branch Line estimates a total annual lease revenue potential of \$596,963. However, the business plan uses a very conservative revenue growth up to \$200,000 annually.

The business plan also shows that even with the addition of new freight customers in the Watsonville area, the closure of the cement plant has a negative impact on freight revenues. However, the recreational rail service does yield revenue and can be sustainable, which helps the freight operation. The shortline operator wants to continue the freight operation and try to make it viable with car storage in the short term and potential growth in freight business in the mid to long-term as the economy recovers. However, if the freight operation cannot be made viable, it may be abandoned. It should be noted that the business plan employs a conservative approach and does not include revenues that can be achieved from potential enhancements such as a federal track maintenance tax credit and a state subsidy for maintenance of grade crossing signals. This tax credit and subsidy are subject to annual

federal renewals and annual state budget approvals and, therefore, may not always be available.

The RTC has been working to acquire the Santa Cruz Branch Rail Line (Branch Line) since 2001. In December 2004, the RTC entered into a non binding letter of intent with Union Pacific (UP) to purchase the Branch Line for \$19 million. Subsequently, the parties renegotiated the purchase price to account for findings made during the initial due diligence work. In August 2008, the RTC reached a new agreement, in principle, with UP to purchase the Branch Line for \$14.2 million with the commitment that \$5 million would be set aside for improvements to the rail line with the available funding. In February 2010, the RTC added recreational rail service between Santa Cruz and Davenport to the project and submitted a revised application for Proposition 116 funds and an allocation request for State Transportation Improvement Program funding to the California Transportation Commission (CTC).

Agreements

The RTC has been negotiating a purchase and sale agreement (PSA) with the current owner, UP, to purchase the Branch Line for \$14.2 million with a condition of investing \$5 million for improvements to the Branch Line. The PSA also stipulates that UP will retain a freight easement that will be transferred to a short line operator upon purchase. This means that if freight service continues, the short line operator, rather than UP or the RTC, will be responsible for the common carrier obligations on the Branch Line. If the freight service is abandoned, the RTC will either railbank the Branch Line, or find another short line operator. The PSA states that the \$5 million for improvements will be placed in an escrow account to ensure that it is used for improvements agreed to by the RTC and UP. Although staff at the California Transportation Commission initially indicated that this was acceptable, they have recently determined that this arrangement will need to be re-examined. RTC negotiators will revisit this item with UP.

The RTC has also been working with attorneys to negotiate an administration and coordination agreement (ACA) with the current short line operator, Sierra Northern Railway. The agreement outlines the limitations of the freight easement, maintenance responsibilities, revenue sharing provisions, insurance requirements, passenger rail license, etc. The RTC will have some maintenance responsibilities under this agreement for the area outside of the freight easement. A few details of this agreement are still being negotiated; however, staff recommends that, if the RTC reaches agreement with an operator consistent with the draft presented to the RTC, the RTC should enter into such an agreement.

Conclusion

Purchasing a railroad right of way is an extremely complicated endeavor, especially if the railroad is in operation. However, similar to the process a person undertakes to purchase a home, one must consider all of the information available and their established goals to determine whether the purchase should be made. The various inspections and analyses show that the property is overall in good shape, that there is revenue potential through leases, recreational rail service and future freight rail services, and that the current owner

made adequate concessions for needed improvements. As such, the property is a worthwhile asset for the community and its future transportation uses.

The RTC’s prime goal in pursuing this purchase has been to preserve the Branch Line as a transportation corridor for future uses. The closure of the CEMEX cement plant makes the possibility of losing this Branch Line as a transportation corridor even more imminent. Developing or acquiring a new corridor running the length of Santa Cruz County will be prohibitively difficult and expensive. The appraisals show an assessed value that supports the purchase price. The Branch Line can sustain recreational rail service that will help stimulate the local economy. The Branch Line will offer transportation options to future generations that would not be available to them otherwise. Therefore, **your Executive Director recommends purchase of the Santa Cruz Branch Rail Line for \$14.2 million with the investment of \$5 million for improvements to the Branch Line and an agreement with an operator for freight service and recreational rail service from Santa Cruz to Davenport.**

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City Council Meeting Calendar April 20, 2010

Date	Time	Location	Topic
May 4, 2010	6:00 p.m.	Council Chambers River/Front & Lower Pacific Walking Tour	River/Front and Lower Pacific Avenue Guidelines & Development Incentives Study
May 11, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
May 25, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
June 7, 2010 and June 9, 2010 (if necessary)	8:30 a.m. – 5:00 p.m. 1:00 p.m. – 5:00 p.m.	Council Chambers	Special Meeting – Budget Hearings
June 8, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
June 22, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
July 13, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
July 27, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
August Break – No Council Meetings			
September 14, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions
September 28, 2010	1:30 p.m. 3:00 p.m. and 7:00 p.m.	Courtyard Conf. Room Council Chambers	Regular Council/Agency Closed Session Regular Council/Redevelopment Agency Open Sessions

Council Membership in City Groups and Outside Agencies

Councilmembers will have the opportunity to present oral updates to Council and the public. Councilmembers may provide direction, request additional information or that a topic raised be agendized for future Council action. The Presiding Officer may request oral updates from Council ad hoc Committees.

The Presiding Officer will ask representatives of each entity if there is any oral update.

Name of Agency/Organization	Currently Serving
Association of Monterey Bay Area Governments (AMBAG)	L. Robinson, T. Madrigal (alternate)
City of Santa Cruz/Soquel Creek Water District (SqCWD) Desalination Project	D. Lane, M. Rotkin, R. Coonerty (Alt.)
City Schools Committee (Ad Hoc)	C. Mathews, T. Madrigal, R. Coonerty
Community Action Board	T. Madrigal, David Sweet (alternate)
Conference and Visitors' Council	C. Mathews, L. Robinson
Cultural Council Board City Representative	K. Beiers
Downtown Management Corporation	C. Mathews, L. Robinson
Economic Development Council (Mayor/Vice Mayor)	R. Coonerty, D. Lane, C. Mathews
Library Joint Powers Authority Board	K. Beiers, M. Rotkin, C. Mathews (alt.)
Library Financing Authority	M. Rotkin
Local Agency Formation Commission (LAFCO)	D. Lane
Monterey Bay Unified Air Pollution Control District	2010 City of Watsonville
Public Safety Committee	D. Lane, M. Rotkin, L. Robinson
Sanctuary Inter-Agency Task Force	K. Beiers, C. Mathews
Santa Cruz County Children's Network	D. Shoemaker, C. Scurich (alt.)
Santa Cruz Community Farmers Market, Inc.	L. Robinson
SC County Integrated Waste Management Local Task Force	M. Rotkin, Alan Schlenger (alternate) Bob Nelson, Mary Arman (alternate)
Santa Cruz Metropolitan Transit District Board	M. Rotkin, L. Robinson
SC County Regional Transportation Commission (SCCRTC)	D. Lane, L. Robinson (alternate)
Social Services Program Committee	R. Coonerty, C. Mathews, L. Robinson

Public comment on the reports given will be heard at a time to be determined by the Presiding Officer.