




Staff Report

City of Manhattan Beach

TO: Honorable Mayor Powell and Members of the City Council

THROUGH:  David N. Carmany, City Manager

FROM: Bruce Moe, Finance Director 

DATE: June 19, 2012

SUBJECT: Resolution of the City Council of the City of Manhattan Beach Approving a Trust Agreement, A Site Lease, A Lease Agreement, a Certificate Purchase Contract, an Official Statement, a Continuing Disclosure Agreement, Escrow Agreements; And Authorizing the Taking of Certain Actions in Connection with the Refunding of Outstanding Certificates of Participation and the Execution and Delivery of Not To Exceed \$14,000,000 Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012

RECOMMENDATION:

Staff recommends that the City Council adopt Resolution No. 6367 approving the refunding (refinancing) of the 2003 Metlox and the 1996 Water/Wastewater Certificates of Participation (COPs) and the execution and delivery of related documents.

FISCAL IMPLICATION:

By taking advantage of the current interest rate environment, the City can achieve estimated present value savings of \$2.29 million through a refunding (refinancing) of existing Metlox Public Improvements and Water/Wastewater COPs. The estimated cost of issuance for the refunding is \$121,850 and includes fees for Bond/Disclosure Counsel (\$60,000), Financial Advisor (\$35,000), Standard & Poor's rating agency (\$14,000), Trustee (\$5,400) and various other parties (verification agent, printing, data sourcing, etc.). Additionally, the Underwriters are paid a fee \$68,503 for purchasing and marketing the COPs. The majority of these costs of issuance are contingent upon the successful completion of the refunding. All of these fees will be paid with proceeds of the refunding COPs, and have already been factored into the present value savings noted earlier. Total debt service for both issues will decrease by approximately \$170,000 annually (\$110,000 in Parking Fund; \$60,000 in Water and Wastewater Funds), while the refunding amortization will not exceed the current term (21 years for Metlox and 14 years for Water/Wastewater).

BACKGROUND:

In line with the City Council Strategic Plan goals, staff reviewed the City's outstanding financing obligations for potential refunding (refinancing) opportunities. The historically low interest rate environment has created the opportunity to reduce overall borrowing costs. At the April 17, 2012 meeting, the City Council authorized staff to proceed with a refinancing plan for the 2003 Metlox and the 1996 Water/Wastewater COPs. This plan is estimated to result in present value savings of approximately \$2.29 million. The actual savings, which may be higher or lower, will be determined at the time of sale, and will be reported to the City Council.

DISCUSSION:

Staff is requesting City Council adopt Resolution No. 6367 which will approve the execution and delivery of refunding COPs for an amount not to exceed \$14.0 million. The total includes estimated costs associated with the execution and delivery of the refunding COPs (Attachment "J" includes the breakdown of sources and uses of funds). The resulting payments under the refunding COPs will be approximately \$170,000 less per year than currently scheduled with respect to existing Metlox Public Improvements and Water/Wastewater COPs.

Refunding Plan

To refund the City's Metlox Public Improvements and Water/Wastewater COPs, a new series of COPs will be issued as a General Fund lease. The allocation of payments to the appropriate funding source (e.g., Water, Wastewater and Parking funds) will occur internally by the Finance staff. Combining both issues into one General Fund master lease reduces the number of series of COPs necessary, eliminates the need for separate disclosure preparation, saves legal fees and reduces the overall cost of issuance. Further, it reduces the overall burden of administration, and will also result in a lower interest rate for the Water/Wastewater portion than would be the case with a separate issue since the refunding COPs will be issued under the stronger credit of the City's General Fund, not the City's Water/Wastewater revenues.

While the General Fund is the funding source for the payments, the lease has been structured to maintain the Water/Wastewater funds as the source of those portions of the payments applicable to refunding of the outstanding Water/Wastewater COPs. The City resolution provides for the Director of Finance, at the time of sale of the refunding COPs, to calculate the allocable portion of payments attributable to Water/Wastewater and to pay that portion out of Water/Wastewater revenues. It is important to note that under this structure if Water/Wastewater revenues are short, the General Fund will be responsible for making those payments.

City Hall and City Parking Lot #3 (located on Morningside Drive) will serve as combined collateral/security for the transaction and will be encumbered until the refunding COPs are paid in full (or other property is substituted). These two facilities have estimated values sufficient to support the refunding COPs. City Hall is the current collateral for the existing Metlox COPs. It was used due to litigation involving the Metlox parcels at the time of construction that precluded using that property to secure the project financing. While the litigation was resolved many years ago, a current title search indicated existing liens that remain from construction in 2003 that need to be resolved. These title issues are minor but will require several weeks to clear. As a result, a substitute property was selected (Lot #3) that when combined with City Hall, provides sufficient collateral value (\$14 million). The combined estimated values for these two facilities totals \$15.8

million (\$12 million for City Hall and \$3.8 million for Lot #3), which provides more than sufficient collateral value and fair market rental value capacity. If desirable in the future, other facilities can be substituted for one or both properties. As a side note, this collateralization is accomplished through the City self-certifying the values based upon insured and land value (City Hall) and revenue capitalization (Lot #3). This negates the need for appraisals and saves the City at least \$7,500 per property.

As with past certificates of participation, there is a ten year call premium. This provides protection for certificate holders against early redemption by the City, which in turn allows the underwriter to more successfully market the certificates to potential investors in the refunding COPs, reducing overall borrowing costs.

Documents to be Approved

There are several documents that require Council and/or Capital Improvements Corporation approval in order to move ahead with this financing. In the interest of source reduction, all of the documents, regardless of whether approved by one or both entities, are presented once within this staff report. A brief description of each document is listed as well:

Resolution No. 6367 (Attachment “A”)

If adopted, the City resolution approves the documents (Trust Agreement, Site Lease, Lease Agreement, Certificate Purchase Contract, Official Statement, Continuing Disclosure Agreement, Escrow Agreements) and authorizes the execution and delivery of COPs for the refunding of the existing Metlox and Water/Wastewater certificates.

Capital Improvements Corporation Resolution No. CIC-6 (Attachment “B”)

If adopted, the Capital Improvements Corporation resolution approves the documents (Trust Agreement, Site Lease, Lease Agreement, Certificate Purchase Contract, Assignment Agreement) and authorizes the execution and delivery of COP’s for the refunding of the existing Metlox and Water/Wastewater COP’s.

Trust Agreement (Attachment “C”)

This document establishes the City’s relationship with U.S. Bank as trustee of the funds. U.S. Bank will be responsible for receiving proceeds of the refunding COPs and distributing funds, handling on-going principal and interest payments, as well as other expenses associated with the certificates of participation. (Executed by City and CIC)

Site and Facilities Lease (Attachment “D”)

This agreement leases the City Hall and Metlox properties and improvements from the City to the City’s Capital Improvements Corporation. The site is then leased back to the City in the Lease Agreement. This establishes the framework for lease payments to be made by the City to the Capital Improvements Corporation. The Capital Improvements Corporation assigns these lease payments to the Trustee, who then pays the investors (in practice, the actual payments are made directly from the City to the Trustee – see the Assignment Agreement below). (Executed by City and CIC)

Lease Agreement (Attachment “E”)

This agreement leases back the property from the City’s Capital Improvements Corporation to the City. (Executed by City and CIC)

Purchase Contract (Attachment “F”)

This agreement is among the Underwriter (Bank of America Merrill Lynch, through its broker-dealer subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated), the City and the Capital Improvements Corporation whereby Merrill Lynch, Pierce, Fenner & Smith Incorporated agrees to purchase the COPs from the City for marketing purposes. (Executed by City and CIC)

Official Statement (Attachment “G”)

This document is used to market the COP’s and includes demographic, financial and other information about the City and the refunding. Under federal securities laws, this document must contain all relevant information relating to the refunding and to City finances generally that would be material to investors. For approval purposes, the statement is preliminary, subject to minor modifications. (Executed by City and CIC)

Assignment Agreement (Attachment “H”)

This document is used by the CIC to assign its rights to receive lease payments from the City pursuant to the lease agreement directly to the Trustee (U.S. Bank) to service the debt. (Executed by CIC only)

Escrow Agreements (Attachments “I” and “J”)

The outstanding 2003 Metlox COP’s are callable beginning in January 2013 at 100% (e.g., no premium for the early call). Completing the refunding in advance of that date requires establishing and funding an escrow account with an amount sufficient to make all payments on the Metlox COPs through January 2013. While those funds earn interest, it will be less than the rate being paid, resulting in negative arbitrage. That negative arbitrage erodes savings from refunding. However, even with the escrow (which will last approximately 7 months) and reduced savings, the refunding is anticipated to save \$1.6 million present value over existing Metlox COP’s. The Water/Wastewater COPs, which are past the early redemption period (2006) also require a short (30 day) escrow account to place funds to be used to call the outstanding COPs.

Schedule of Sources and Uses of Funds (Attachment “K”)

This schedule lists the estimated sources and uses of funds for the financing issue, as well as the estimates of the City’s payment obligations.

Continuing Disclosure Agreement (Attachment “L”)

This document, executed by the City, includes a list of annual City reporting requirements and events that, if they were to occur, would require disclosure during the life of the COPs.

Copies of all of the documents have been included with this report. These documents are in substantially final form; however, minor modifications may need to be made during the course of the financing. By adopting the Resolutions (6367 and CIC-6) the City Council (and Board of

Directors) authorizes the Mayor (President), City Manager (Chief Administrative Officer) or Finance Director (Chief Financial Officer) to negotiate those changes, and execute the final versions of the agreements when in final form. All documents will be approved as to form by either the City Attorney or Special Counsel, or where appropriate, both. If the financing is approved, the documents will be finalized, and the sale of the certificates of participation will take place later this month.

Marketing of Certificates of Participation

At its April 17th meeting, the City Council approved Bank of America Merrill Lynch (BAML) as the underwriter for this refunding. BAML has retail and institutional marketing channels which will ensure a successful sale of the COPs. In addition to the usual channels, BAML will place an advertisement in The Beach Reporter to notify residents of the opportunity to purchase the COPs. In past City bond sales, this approach has generated a high degree of interest among residents.

Capital Improvements Corporation

The Manhattan Beach Capital Improvements Corporation (CIC) was formed in 1996 to facilitate the execution and delivery of the COPs for improvements to the water and wastewater systems (part of the refunding plan). The CIC has also been the conduit for Marine Avenue Sports Fields in 2002, the Metlox Public Improvements in 2003, and the Police & Fire Facility in 2004.

The mechanism for the City to refund the Metlox and Water/Wastewater COPs will be through the execution and delivery of certificates of participation by the CIC. Under this financing arrangement, the title to the real property (City Hall and Metlox) will be held by the City, which will lease it to the CIC. The CIC will then lease the property back to the City. The CIC will assign and pay over the lease payments to the trustee, which will in turn pay such amounts to the certificate holders.

On the agenda this evening is a meeting of the City's Capital Improvements Corporation. That meeting is an integral part of the approval process as well. Please refer to the associated staff report for that agenda item.

CONCLUSION:

The City has the opportunity to save an estimated \$2.29 million by refinancing the existing Metlox and Water/Wastewater COPs. These savings will be achieved through the execution and delivery of new COPs in an amount not-to-exceed \$14.0 million with lower interest rates than currently paid on the existing debt. The new COPs will be secured with the City Hall and Metlox facilities. Existing amortization periods will be maintained. Staff anticipates that the refunding will be completed by July 11th.

Attachments:

- a. City Resolution No. 6367
- b. Capital Improvement Corporation Resolution No. CIC-6
- c. Trust Agreement
- d. Site and Facilities Lease
- e. Lease Agreement
- f. Purchase Contract

- g. Preliminary Official Statement
- h. Assignment Agreement
- i. Escrow Agreements – 2003 Metlox COPs
- j. Escrow Agreements – 1996 Water/Wastewater COPs
- k. Schedule of Sources and Uses of Funds
- l. Continuing Disclosure Agreement

RESOLUTION NO. 6367

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MANHATTAN BEACH APPROVING A TRUST AGREEMENT, A SITE LEASE, A LEASE AGREEMENT, A CERTIFICATE PURCHASE CONTRACT, AN OFFICIAL STATEMENT, A CONTINUING DISCLOSURE AGREEMENT, ESCROW AGREEMENTS; AND AUTHORIZING THE TAKING OF CERTAIN ACTIONS IN CONNECTION WITH THE REFUNDING OF OUTSTANDING CERTIFICATES OF PARTICIPATION AND THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$14,000,000 CERTIFICATES OF PARTICIPATION (METLOX AND WATER/WASTEWATER REFUNDING) SERIES 2012

WHEREAS:

(a) The Manhattan Beach Capital Improvements Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and the City of Manhattan Beach, a political subdivision duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "City") previously entered into an Installment Sale Agreement (the "1996 Installment Agreement") for the purpose of financing the costs of certain capital projects relating to the City's water and wastewater system, as described therein (the "1996 Improvements"); and

(b) The Corporation and the City previously entered into a Lease Agreement (the "2003 Project Lease"), dated as of January 1, 2003 for the purpose of financing the costs of certain capital projects for the City described therein (the "2003 Improvements"); and

(c) In order to finance the 1996 Improvements and the 2003 Improvements, the City executed and delivered the City of Manhattan Beach Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates") and Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates" and together with the 1996 Certificates, the "Refunded Certificates"), and

(d) The City has determined that refinancing the costs of the 1996 Improvements and the 2003 Improvements by paying and refunding the installment payments becoming due under the 1996 Installment Agreement and the base rental payments becoming due under the 2003 Project Lease (together, the "Prior Project Agreements") is necessary and proper for City purposes and uses under the terms of applicable law and is for the common benefit of the City as a whole; and

(e) In order to implement the foregoing, the City and the Corporation, propose to enter into a Site Lease (as hereinafter defined) pursuant to which the City agrees to lease to the Corporation certain real property and improvements generally consisting of (i) City Hall and the real property on which it is located and (ii) a two level public parking structure, accommodating 139 vehicles (the "Leased Premises"); and

(f) The City and the Corporation propose to enter into the Lease Agreement (the "Lease Agreement") pursuant to which the Corporation agrees to lease the Property to the City in consideration for which the City will make payments of base rental ("Base Rental") for the use and possession of the Leased Premises; and

(g) The Corporation proposes to assign and transfer to U.S. Bank National Association, as trustee (the "Trustee"), certain of its rights, title and interest in and to the Lease Agreement, including its right to receive payments of Base Rental thereunder, by entering into an Assignment Agreement (as hereinafter defined); and

(h) The City, the Corporation and the Trustee propose to enter into a Trust Agreement pursuant to which the Trustee will execute and deliver certificates of participation representing proportionate undivided interests in the Lease Agreement, including the right to receive payments of Base Rental thereunder; and

(i) The City proposes to enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to assist the participating underwriter in complying with the Rule (as defined therein); and

(j) The City, the Corporation and the Underwriter (as defined herein) propose to enter into a Certificate Purchase Agreement (as hereinafter defined) pursuant to which the City will sell the Refunding Certificates (as hereinafter defined); and

(k) In order to provide for the defeasance and redemption of the Refunded Certificates, the City proposes to enter into separate Escrow Agreements (as hereinafter defined) relating to the 1996 Certificates and the 2003 Certificates; and

(l) The proceeds of the 1996 Certificates were used to pay the cost of improvements to the City's water and wastewater systems ("Water and Wastewater Systems"), and amounts payable pursuant to the 1996 Installment Agreement have been properly chargeable against and payable from the revenues of the Water and Wastewater Systems; and

(m) The City is authorized to undertake all of the above pursuant to applicable laws of the State of California.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MANHATTAN BEACH DOES HEREBY RESOLVE AS FOLLOWS:

1. The Council hereby determines the above findings are true and correct.
2. The form of Site Lease by and between the City and the Corporation (the "Site Lease"), a copy of which is attached hereto as Exhibit "A" and incorporated herein by this reference, is hereby approved. The term of the Site Lease shall not exceed 26 years.
3. The form of Lease Agreement by and between the City and the Corporation (the "Lease Agreement"), a copy of which is attached hereto as Exhibit "B" and incorporated herein by this reference, is hereby approved. The term of the Lease Agreement shall not exceed 26 years. Base Rental Payments shall not exceed \$1,500,000 in any year.

Amounts payable by the City pursuant to the Lease Agreement shall be payable from any legally available funds of the City to the extent set forth in the Lease Agreement; provided, however, that upon the sale of the Refunding Certificates, the Director of Finance shall calculate the portion of Base Rental Payments due under the Lease Agreement attributable to the prepayment of the 1996 Installment Agreement and 1996 Certificates, and shall prepare a schedule setting forth such

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amounts. Such amounts shall be charged against and payable from the revenues of the Water and Wastewater Systems.

4. The form of Trust Agreement among the City, the Corporation and the Trustee (the "Trust Agreement"), a copy of which is attached hereto as Exhibit "C" and incorporated herein by this reference, is hereby approved.

5. The execution and delivery, pursuant to the Trust Agreement, of the Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "Refunding Certificates") in an aggregate principal amount not to exceed \$14,000,000 is hereby approved.

6. The form of Certificate Purchase Agreement (the "Purchase Agreement") between the City and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), a copy of which is attached hereto as Exhibit "D" and incorporated herein by this reference, is hereby approved. In connection with the execution and delivery of the Purchase Agreement, any Responsible Officer is further authorized and directed to negotiate the price and the interest rates for the Refunding Certificates to be sold pursuant to the Purchase Agreement. The true interest cost of payments to be made in connection with such Certificates shall not exceed 4.5 percent per annum and the underwriter's discount from the principal amount of the Refunding Certificates shall not exceed 1.0% of the aggregate amount thereof.

7. Any one of the Mayor, the City Manager, the Finance Director, or any deputy thereof, or person duly appointed in writing to act in the stead of such officer (collectively, the "Responsible Officers"), is hereby authorized and directed for and in the name of and on behalf of the City to execute and deliver the Site Lease, the Lease Agreement, the Trust Agreement, the Certificate Purchase Agreement, the Continuing Disclosure Agreement and the Escrow Agreements, each in substantially the form presented to and considered at this meeting, with such changes therein, deletions therefrom and additions thereto as may be approved (i) by any Responsible Officer, in such person's discretion, as being in the best interests of the City, (ii) by Stradling Yocca Carlson & Rauth, Special Counsel, and, (iii) as to form, by City Attorney; such approval to be conclusively evidenced by the execution and delivery thereof by the person executing the same on behalf of the City.

8. The City hereby consents to the assignment by the Corporation of certain of its rights under the Lease Agreement, including the right to receive payments of Base Rental thereunder, to the Trustee for the benefit of the owners of the Refunding Certificates and hereby approves the form of the Assignment Agreement by and between the Corporation and the Trustee (the "Assignment Agreement"), a copy of which is attached hereto as Exhibit "E" and incorporated herein by this reference.

9. The proposed form of preliminary official statement relating to the Refunding Certificates, presented to this meeting and a copy of which is attached hereto as Exhibit "F", is hereby approved. The Underwriter of the Refunding Certificates and the Responsible Officers are hereby authorized to distribute to persons who may be interested in the purchase of the Refunding Certificates a preliminary official statement in substantially said form with such changes therein, deletions therefrom and additions thereto as may be approved (i) by any such officer, (ii) by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, (iii) as to form, by the City Attorney. Upon approval of such changes by any Responsible Officer as evidenced by execution of a certificate, substantially in the form on file with the City Clerk and incorporated herein by this reference, the preliminary official statement shall be deemed final as of its date except for the

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omission of certain information as provided in and pursuant to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended. Any Responsible Officer is, hereby authorized, for and in the name of and on behalf of the City, to execute a final official statement for the Refunding Certificates authorized hereby, in substantially the form of said preliminary official statement, with such insertions and changes therein as such officer or officers, with the advice of said Special Counsel and the City Attorney, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The underwriter or underwriters of the Refunding Certificates and the Responsible Officers of the City are hereby authorized and directed to deliver copies of the final official statement to all actual purchasers of the Refunding Certificates.

10. The form of Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), in substantially the form of the draft attached hereto as Exhibit "G" and incorporated herein by reference, to be dated the date of initial delivery of the Refunding Certificates, is hereby authorized to be executed and delivered by any Responsible Officer. The City covenants with the holders from time to time of the Refunding Certificates that it will, and hereby authorizes the appropriate officers and employees of the City to take all action necessary or appropriate to, comply with and carry out all of the provisions of the Continuing Disclosure Agreement as amended from time to time. Notwithstanding any other provision of this Resolution, failure of the City to perform in accordance with the Continuing Disclosure Agreement shall not constitute a default or an Event of Default under the Resolution or the Trust Agreement, and the rights and remedies provided by the Resolution and the Trust Agreement upon the occurrence of such a default or an Event of Default shall not apply to any such failure, but the Continuing Disclosure Agreement may be enforced only as provided therein.

11. The form of the Escrow Agreements (the "Escrow Agreements") a copy of which is attached hereto as Exhibit "H" and incorporated herein by this reference, is hereby approved.

12. All actions heretofore taken by any officer of the City with respect to the issuance and sale of the Refunding Certificates, are hereby approved, confirmed and ratified.

13. The Responsible Officers are, and each of them acting alone is, hereby authorized and directed to take such actions and to execute such documents and certificates as may be necessary to effectuate the purposes of this resolution, including the execution and delivery of the Refunding Certificates, the paying and refunding of the base rental payments becoming due under the Prior Project Agreements (including one or more escrow agreements), and the publication of any notices necessary or desirable in connection with the sale of the Refunding Certificates and execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, deem necessary or advisable in order to consummate the transactions as described herein and in the Official Statement.

14. This Resolution shall take effect upon its adoption by this Council. The City Clerk shall certify to the adoption of this Resolution and thenceforth and thereafter the same shall be in full force and effect.

PASSED, APPROVED and ADOPTED this 19th day of June, 2012.


Ayes:
Noes:
Absent:
Abstain:

Wayne Powell, Mayor
City of Manhattan Beach, California

ATTEST:

Liza Tamura, City Clerk

APPROVED AS TO FORM:



Kevin M. Wade
Special Counsel

RESOLUTION NO. CIC-6

RESOLUTION OF THE MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION APPROVING A TRUST AGREEMENT, A SITE LEASE, A LEASE AGREEMENT, A PURCHASE CONTRACT, AN ASSIGNMENT AGREEMENT; AUTHORIZING THE TAKING OF CERTAIN ACTIONS IN CONNECTION WITH THE REFUNDING OF OUTSTANDING CERTIFICATES OF PARTICIPATION AND THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$14,000,000 CERTIFICATES OF PARTICIPATION (METLOX AND WATER/WASTEWATER REFUNDING) SERIES 2012

WHEREAS:

(a) The Manhattan Beach Capital Improvements Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and the City of Manhattan Beach, a political subdivision duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "City") previously entered into Installment Sale Agreement (the "1996 Installment Agreement") for the purpose of financing the costs of certain capital projects relating to the City's water and wastewater system, as described therein (the "1996 Improvements"); and

(b) The Corporation and the City previously entered into a Lease Agreement (the "2003 Project Lease"), dated as of January 1, 2003 for the purpose of financing the costs of certain capital projects for the City described therein (the "2003 Improvements"); and

(c) In order to finance the 1996 Improvements and the 2003 Improvements, the City executed and delivered the City of Manhattan Beach Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates") and Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates" and together with the 1996 Certificates, the "Refunded Certificates"), and

(d) The City and the Corporation have determined that refinancing the costs of the 1996 Improvements and the 2003 Improvements by paying and refunding the installment payments becoming due under the 1996 Installment Agreement and the base rental payments becoming due under the 2003 Project Lease (together, the "Prior Project Agreements") is necessary and proper for City purposes and uses under the terms of applicable law and is for the common benefit of the City as a whole; and

(e) In order to implement the foregoing, the City and the Corporation, propose to enter into a Site Lease (as hereinafter defined) pursuant to which the City agrees to lease to the Corporation certain real property and improvements generally consisting of (i) City Hall and the real property on which it is located and (ii) a two level public parking structure, accommodating 139 vehicles (the "Leased Premises"); and

(f) The City and the Corporation propose to enter into the Lease Agreement (the "Lease Agreement") pursuant to which the Corporation agrees to lease the Property to the City in consideration for which the City will make payments of base rental ("Base Rental") for the use and possession of the Leased Premises; and

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(h) The Corporation proposes to assign and transfer to U.S. Bank National Association, as trustee (the "Trustee"), certain of its rights, title and interest in and to the Lease Agreement, including its right to receive payments of Base Rental thereunder, by entering into an Assignment Agreement (as hereinafter defined); and

(i) The City, the Corporation and the Trustee propose to enter into a Trust Agreement pursuant to which the Trustee will execute and deliver certificates of participation representing proportionate undivided interests in the Lease Agreement, including the right to receive payments of Base Rental thereunder; and

(j) The City, the Corporation and the Underwriter (as defined herein) propose to enter into a Certificate Purchase Agreement (as hereinafter defined) pursuant to which the City will sell the Refunding Certificates (as hereinafter defined); and

(k) The Corporation is authorized to undertake all of the above pursuant to applicable laws of the State of California.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION AS FOLLOWS:

1. The form of Site Lease by and between the City and the Corporation (the "Site Lease"), a copy of which is attached hereto as Exhibit "A" and incorporated herein by this reference, is hereby approved.

2. The form of Lease Agreement by and between the City and the Corporation a copy of which is attached hereto as Exhibit "B" and incorporated herein by this reference, is hereby approved.

3. The form of Assignment Agreement by and between the Corporation and the Trustee (the "Assignment Agreement"), a copy of which is attached hereto as Exhibit "C" and incorporated herein by this reference, is hereby approved.

4. The form of Certificate Purchase Agreement (the "Certificate Purchase Agreement") among the City, the Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), a copy of which is attached hereto as Exhibit "D" and incorporated herein by this reference, is hereby approved.

5. The form of Trust Agreement (the "Trust Agreement"), a copy of which is attached hereto as Exhibit "E" and incorporated herein by this reference, is hereby approved.

6. The President, the Chief Administrative Officer, the Chief Financial Officer, and the other officers of the Corporation are, and each of them acting alone is, hereby authorized and directed for and in the name of and on behalf of the Corporation to execute and deliver the Site Lease, the Lease Agreement, the Assignment Agreement, the Purchase Agreement and the Trust Agreement each in substantially the form presented to and considered at this meeting, with such changes therein, deletions therefrom and additions thereto as may be approved (i) by the officer executing the same on behalf of the Corporation, in such officer's discretion, as being in the best interests of the Corporation, (ii) by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, and (iii) as to form by the City Attorney; such approval to be conclusively

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evidenced by the execution and delivery of such document by the officer executing the same on behalf of the Corporation.

7. All actions heretofore taken by any officer of the Corporation in connection with or related to any of the agreements referenced herein or the financing of the Project are hereby approved, confirmed and ratified.

8. The President, Vice-President and the Secretary of the Corporation and all other officers of the Corporation are, and each of them acting alone is, hereby authorized and directed to take such actions and to execute such documents and certificates (including certificates relating to the accuracy and completeness of the information in the Official Statement relating to the Certificates as set forth in the Certificate Purchase Contract) as may be necessary to effectuate the purposes of this Resolution, including but not limited to the execution and delivery of the Certificates, the refunding of the Refunded Certificates, and the termination of the Prior Project Agreements and related agreements, and the execution of any documents and certificates in connection therewith, to the extent not inconsistent with this resolution.

9. This Resolution shall take effect upon its adoption by this Board. The City Clerk shall make this Resolution reasonably available for public inspection within thirty (30) days of the date this Resolution is adopted. The City Clerk shall certify to the adoption of this Resolution and thenceforth and thereafter the same shall be in full force and effect.

PASSED, APPROVED and ADOPTED by the Board of Directors of the Manhattan Beach Capital Improvements Corporation this 19th day of June 2012.

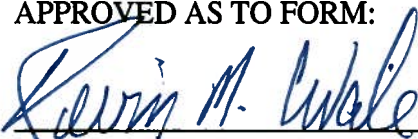
Ayes:
Noes:
Absent:
Abstain:

President
Manhattan Beach Capital Improvements Corporation

ATTEST:

Secretary

APPROVED AS TO FORM:



Special Counsel

TRUST AGREEMENT

By and among

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

and

**MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION,
as Corporation**

and

**CITY OF MANHATTAN BEACH,
as City**

Dated as of June 1, 2012

Entered into in Connection with the Sale and Delivery of

\$_____

**City of Manhattan Beach
Certificates of Participation
(Metlox and Water/Wastewater Refunding)
Series 2012**

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of June 1, 2012, by and among U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized under the laws of the United States of America, as trustee (the "Trustee"), MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, as lessor under the Lease hereinafter described (the "Corporation"), and CITY OF MANHATTAN BEACH, a general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessee under said Lease (the "City");

WITNESSETH:

WHEREAS, concurrently herewith, the City has leased to the Corporation its fee interest in (i) City Hall and the real property on which it is located and (ii) a two level public parking structure, accommodating 139 vehicles (collectively, the "Leased Premises"), pursuant to a Site and Facilities Lease, dated as of June 1, 2012 (the "Site Lease"), by and between the City and the Corporation, and the Corporation, concurrently with the execution of the Site Lease, will lease the Leased Premises back to the City pursuant to a Lease, dated as of June 1, 2012 (the "Lease"), by and between the City and the Corporation, in consideration for lease payments equal to the principal and interest components coming due with respect to the Certificates; and

WHEREAS, pursuant to an Assignment Agreement by and between the Corporation and the Trustee, dated as of the date hereof (the "Assignment Agreement"), the Corporation will assign to the Trustee its right to receive all Lease Payments due under the Lease and pursuant to this Trust Agreement, the Corporation and City will grant a security interest in moneys held by the Trustee hereunder, all to the Trustee for the benefit of the owners of the Certificates and as security therefor; and

WHEREAS, in consideration of such assignment and the execution of this Trust Agreement, the Trustee has agreed to execute and deliver the Certificates, each evidencing and representing undivided and proportionate interests of the owners thereof in the Lease Payments and Prepayments (as defined herein) made by the City under the Lease, which will provide the moneys required to be deposited hereunder;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions and Rules of Construction. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Trust Agreement, have the meanings specified herein or in the Lease. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa. The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms as used in this Trust Agreement, refer to this Trust Agreement as a whole.

“Additional Certificates” means all Certificates authorized by a Supplemental Trust Agreement and executed and delivered by the Trustee under and pursuant to Sections 2.12 and 2.13 of this Trust Agreement.

“Additional Payments” means those payments due as provided in Section 4.6 of the Lease.

“Assignment Agreement” means the Assignment Agreement, dated as of June 1, 2012, by and between the Trustee and the Corporation, and any duly authorized and executed amendments or supplements thereto.

“Business Day” means any day (other than a Saturday or Sunday) on which banks in Los Angeles, California, or New York, New York, are not authorized or obligated by law or executive order to remain closed.

“Certificates” means the \$_____ aggregate principal amount of City of Manhattan Beach Certificates of Participation (Metlox and Wastewater Refunding) Series 2012, executed and delivered pursuant to this Trust Agreement, and if the context requires, Additional Certificates.

“Certificate Year” means the annual period commencing on _____ 2 of a calendar year and ending on _____ 1 of the following calendar year, in any year during which Certificates are or will be Outstanding; provided, however, that the first and the final Certificate Years may be of a duration of less than one year.

“City Representative” means the City Manager or the Finance Director of the City or any other person authorized by the Governing Body to act on behalf of the City with respect to this Trust Agreement, the Lease and any related documents.

“Closing Date” means respect to any Series of Certificates, the date upon which there is a physical delivery of such Series of Certificates in exchange for the amount representing the purchase price of such Certificates by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, and United States Treasury final regulations promulgated thereunder.

“Corporation Representative” means the Chief Administrative Officer of the Corporation, or any other person authorized by the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Lease, as evidenced by a certificate of the Corporation.

“Delivery Costs” means, with respect to any Series, all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution and delivery of the Certificates of such Series, including but not limited to filing and recording costs, printing costs, reproduction and binding costs, financing discounts, initial fees and charges of the Trustee (including its first annual fee), legal fees and charges, financing and other professional consultant fees, title insurance premiums, rating agency fees for credit ratings, the fees for the Trustee’s execution, transportation and safekeeping of Certificates of such Series and other charges and fees in connection with the foregoing.

“Delivery Costs Fund” means the Delivery Costs Fund established pursuant to Section 3.1.

“Depository Trust Company” or “DTC” means The Depository Trust Company, New York, New York, as initial securities depository for the Certificates.

“Event of Default” means an event of default under the Lease, as defined in Section 9.1 thereof; provided, however, that it shall not be an Event of Default hereunder for the City to fail to make Lease Payments when due but it shall instead be an Event of Default hereunder for the Trustee to fail to pay to the Owners of the Certificates their proportionate shares of Interest Component and Principal Component as and when due pursuant to the Trust Agreement.

“Federal Securities” means any of the following (which solely for purposes of Section 14.1(c) hereof are noncallable and nonprepayable) and which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein: direct 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), or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Fiscal Year” means the fiscal year of the City, presently commencing July 1 of each calendar year and ending June 30 of the following calendar year.

“Governing Body” means the City Council of the City.

“Interest Component” means the portion of the Lease Payments designated as interest with respect to the Certificates, which shall be determined by the rate of interest applicable to the respective Certificates.

“Interest Payment Date” means, with respect to any Series of Certificates, January 1 and July 1 of each year, commencing January 1, 2013.

“Lease” means the Lease Agreement, dated as of June 1, 2012, by and between the City and the Corporation, and any duly authorized and executed amendments or supplements thereto.

“Lease Payment” means any payment required to be paid by the City to the Corporation pursuant to Section 4.3 of the Lease.

“Lease Payment Date,” with respect to any Series of Certificates, has the meaning set forth in Section 4.3(a) of the Lease.

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.1(d).

“Leased Premises” shall mean that certain real property and improvements thereon comprising those parcels and the interests therein from time to time as described on Exhibit B to the Lease.

“Net Insurance Proceeds” means any net proceeds of insurance or condemnation proceeds paid with respect to the affected portion of the Leased Premises remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Net Insurance Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to Section 7.1.

“1996 Certificates” means the City of Manhattan Beach Certificates of Participation (Water and Wastewater Improvements) Series 1996.

“1996 Escrow Agent” means U.S. Bank National Association, as escrow agent pursuant to the 1996 Escrow Agreement.

“1996 Escrow Agreement” means the Escrow Agreement (1996 Certificates), dated as of June 1, 2012, between the City and the 1996 Escrow Agent.

“Nonpurpose Investments” has the meaning ascribed to such term in the Tax Certificate.

“Original Purchaser” means, with respect to any Series of Certificates, the first purchaser of such Certificates, and with respect to the Certificates further designated Series 2012, means BofA Merrill Lynch.

“Outstanding,” when used as of any particular time with respect to Certificates, means (subject to the provisions of Section 10.3 and 14.1) all Certificates theretofore executed and delivered by the Trustee under this Trust Agreement except:

- (i) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (ii) Certificates for the payment or prepayment of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates) in accordance with Section 14.1 hereof; provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in Section 4.6 hereof or provision satisfactory to the Trustee shall have been made for the giving of such notice; and
- (iii) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to Sections 2.8 and 2.9 hereof.

“Owner” or “Certificate Owner” or “Owner of a Certificate,” or any similar term, when used with respect to a Certificate, means the person in whose name such Certificate is registered on the registration books of the Trustee.

“Payment Date” means any Interest Payment Date or Principal Payment Date.

“Permitted Encumbrances” means, with respect to the Leased Premises, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the provisions of Article V of the Lease, permit to remain unpaid; (ii) this Trust Agreement; (iii) the Site Lease; (iv) the Assignment Agreement; and (v) the Lease.

“Permitted Investments” means the following to the extent permitted by law:

- (1) Cash deposits (insured at all times by the Federal Deposit Insurance Corporation);

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the of the United States of America, including: (i) United States of America treasury obligations; (ii) all direct or fully guaranteed obligations of the United States of America; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association ("GNMA"); and (vii) State and Local Government Series;

(3) For all purposes other than defeasance investments in refunding escrow accounts, obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Rural Economic Community Development Administration; (iii) U.S. Maritime Administration; (iv) Small Business Administration; (v) U.S. Department of Housing and Urban Development; (vi) Federal Housing Administration; and (vii) Federal Financing Bank;

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) Senior debt obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; (ii) Obligations of the Resolution Funding Corporation; and (iii) Senior debt obligations of the Federal Home Loan Bank System;

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by S&P, and which mature not more than 270 calendar days after the date of purchase;

(6) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the ratings of the banks);

(7) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(8) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and, (i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of Moody's or S&P; or (ii)(A) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting of cash or securities as described in paragraph (2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the prepayment date or dates specified pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by an Accountant's Certificate, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or the prepayment date or dates specified pursuant to such irrevocable instructions, as appropriate;

(9) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(10) Investment agreements, including guaranteed investment contracts, of institutions or guarantors or such institutions, whose long-term debt or claims paying ability is at all times rated equal to or better than the then existing rating of the Certificates by S&P and Fitch, if S&P and Fitch have rated the Certificates, or is collateralized by: cash at 100%; Federal Securities or other obligations of any agency or instrumentality of the United States of America at 104% of the amount invested; senior debt and/or mortgage-backed obligations of Federal National Mortgage Association or Federal Home Loan Mortgage Corporation at 105% of the amount invested; and

(11) the Local Agency Investment Fund of the State, 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.

"Prepayment" means any payment made by the City pursuant to Article X of the Lease as a prepayment of the Lease Payments.

"Prepayment Fund" means the fund by that name established and held by the Trustee pursuant to Section 4.1 hereof

"Principal Component" means the portion of the Lease Payments designated as principal represented by the Certificates.

"Principal Office" means the principal corporate trust office of the Trustee in Los Angeles, California, or the principal corporate trust office of any successor Trustee, provided that for registration, transfer, exchange, surrender and payment of Certificates, means the corporate trust office of the Trustee in St. Paul, Minnesota, or such other office designated by the Trustee.

"Principal Payment Date" means January 1 of each year in which the Certificates mature or mandatory sinking fund payments are scheduled to be made.

"Rating Agency" means S&P, and any successors thereto, or if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by City.

"Rating Category" means any generic rating category of S&P or Fitch, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

"Rebate Fund" means the fund established and held by the Trustee pursuant to Section 11.8 hereof.

"Rebate Amount" means with respect to the Certificates, the amount computed as described in the Tax Certificate.

"Record Date" means, with respect to any Interest Payment Date with respect to Certificates of any Series, except for a payment of defaulted interest, the fifteenth day of the calendar month preceding any Interest Payment Date, whether or not such fifteenth day is a Business Day. With respect to any payment of defaulted interest, a special record date shall be established in accordance with the provisions of this Trust Agreement.

“Registrar” means the Trustee.

“Regulations” means the applicable regulations of the United States Department of the Treasury proposed or promulgated under section 103 or sections 141 through 148 of the Code or of the Internal Revenue Code of 1954, as amended.

“Requisition” means any requisition executed by the City Representative and filed with the Trustee requesting disbursement of amounts from the Net Insurance Proceeds Fund.

“Responsible Officer” means any Vice President, Assistant Vice President or Officer of the Trustee having regular responsibility for the obligations of the Trustee under this Trust Agreement.

“S&P” means Standard & Poor’s, a Division of McGraw-Hill Companies, Inc., organized and existing under the laws of the State of New York, its successors and assigns.

“Series,” when used with reference to the Certificates, means all of the Certificates designated as being of the same series, executed and delivered in a simultaneous transaction, regardless of variations in principal payment date, interest rate mode, prepayment and other provisions, and any Certificates thereafter executed and delivered upon transfer or exchange of or in lieu of or in substitution for (but not a refund) such Certificates pursuant to this Trust Agreement.

“Site Lease” means the Site and Facilities Lease, dated as of June 1, 2012, by and between the Corporation, as lessee thereunder, and the City, as lessor thereunder, and any duly authorized and executed amendments or supplements thereto.

“Special Counsel” means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax status of interest on obligations issued by states and their political subdivisions.

“State” means the State of California.

“Supplemental Lease Agreement” means any lease agreement hereafter duly authorized and entered into by and between the City and the Corporation, supplementing, modifying or amending the Lease; but only if and to the extent that such Supplemental Lease Agreement is specifically authorized hereunder.

“Supplemental Trust Agreement” means any trust agreement hereafter duly authorized and entered into among the Corporation, the City and the Trustee, supplementing, modifying or amending this Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized hereunder.

“Tax Certificate” means with respect to any Series of Certificates, the Tax Certificate dated as of the Closing Date for the Certificates of such Series concerning certain matters pertaining to the use and investment of proceeds of such Certificates executed by the City on the date of execution and delivery of such Certificates, including any and all exhibits attached thereto.

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

“Trustee” means U.S. Bank National Association, and its successors or assigns hereunder.

“Trust Agreement” means this Trust Agreement, together with any amendments hereof or supplements hereto permitted to be made hereunder.

“2003 Certificates” means the City of Manhattan Beach Certificates of Participation (Metlox Public Improvements) Series 2003.

“2003 Escrow Agent” means U.S. Bank National Association, as escrow agent pursuant to the 2003 Escrow Agreement.

“2003 Escrow Agreement” means the Escrow Agreement (2003 Certificates), dated as of June 1, 2012, among the City, the Corporation and the 2003 Escrow Agent.

“Value” when relating to the Permitted Investments, shall be determined as of the end of each month, and shall mean the value of any Permitted Investments calculated as follows:

- (a) as to Permitted Investments, the bid and asked prices of which are published on a regular basis in the The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
- (b) as to Permitted Investments, the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
- (c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and
- (d) as to any Permitted Investment not specified above: the value thereof established by prior agreement between the City and the Trustee.

SECTION 1.2. **Authorization.** Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Trust Agreement, and has taken all actions necessary to authorize the execution of this Trust Agreement by the officers and persons signing it.

ARTICLE II

THE CERTIFICATES OF PARTICIPATION

SECTION 2.1. **Authorization.** The Trustee is hereby authorized and directed to execute and deliver, to the Original Purchaser, Certificates in an aggregate principal amount of \$_____ in denominations of \$5,000 or any integral multiple thereof, evidencing and representing proportionate and undivided ownership interests of the Owners of the Certificates in the Lease Payments and the Prepayments, if any, to be made by the City under the Lease.

SECTION 2.2. **Date.** Each Certificate shall be dated as of the date of its execution, and the Interest Component shall be payable from the Interest Payment Date immediately preceding

the date of execution thereof, unless (i) it is executed as of an Interest Payment Date, in which event the Interest Component shall be payable from the date of execution thereof, (ii) it is executed after a Record Date and before the following Interest Payment Date, in which event the Interest Component shall be payable from such following Interest Payment Date; or (iii) it is executed on or before its first Record Date, in which event the Interest Component shall be payable from their date of delivery; provided, however, that if, as of the original date of execution of any Certificate, the Interest Component has not been paid when due for any Outstanding Certificates, such Interest Component for such Certificate shall be payable from the Payment Date to which the Interest Component has previously been paid or made available for payment with respect to the Outstanding Certificates. There shall be no execution or registration of transfer of Certificates during the period established by the Trustee for selection of Certificates for prepayment or of any Certificate selected for prepayment.

SECTION 2.3. Maturity; Interest Rates.

(a) Payment of the Principal Component and the Interest Component of the Certificates. The Certificates shall mature on January 1, on the dates set forth below and shall represent interest as shown below:

Maturity (January 1)	Principal Component	Interest Rate	Maturity (January 1)	Principal Component	Interest Rate
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(b) Payment with Respect to Certificates Equal to Total Lease Payments. The total Principal Component and Interest Component due on all Certificates shall not exceed the total Lease Payments due under the Lease.

(c) Method of Payment. The principal, prepayment premium, if any, and interest payable with respect to the Certificates shall be payable in lawful money of the United States of America by check, being any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. Interest shall be paid by the Trustee on the Interest Payment Date with regard to such Certificate to the Owner thereof at the close of business on the Record Date with respect to such interest payment and shall be paid by check mailed by first class mail to such Owner at his address as it appears on the Certificate registration books or, upon the written request of an Owner of at least \$1,000,000 in principal amount of Certificates received at least fifteen (15) days prior to a Record Date, by wire transfer in immediately available funds to an account designated by such Owner, irrespective of the cancellation of such Certificate upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date, unless the City shall default in the payment of interest due with respect to such Interest Payment Date. Payment of principal or premium due shall be paid only upon surrender of such Certificate at the Principal Office of the Trustee. In the event of any default in the payment of interest, such defaulted interest shall be payable to the Owner of such Certificate on a special record date for the payment of such defaulted interest, which date shall be

established by the Trustee by notice mailed by or on behalf of the City to the Owners of Certificates not less than fifteen (15) days preceding such special record date.

SECTION 2.4. Registration; Interest. The Certificates shall be delivered in the form of fully registered Certificates without coupons, bearing CUSIP Service Bureau numbers, and in denominations of \$5,000 each or any integral multiple thereof. The Certificates shall be individually numbered as determined by the Trustee. The Certificates shall be registered initially in the name of "Cede & Co.," as nominee of Depository Trust Company and shall be evidenced by one Certificate for each of the maturities of the Certificates. Registered ownership of the Certificates, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.8 hereof.

In the event the City determines that the continuation of the system of book-entry-only transfers through DTC (or a successor securities depository) is not in the best interests of the DTC participants, beneficial owners of the Certificate Owners, or the City, the City will notify the Trustee, whereupon the Trustee will notify DTC of the availability through DTC of certificates for the Certificates. In such event, the Trustee shall execute and deliver and shall transfer and exchange Certificates as requested by DTC of like principal amount, class, series, priority and maturity, in authorized denominations to the identifiable beneficial owners in replacement of the beneficial interests of such beneficial owners with respect to the Certificates.

The Interest Component shall be payable on each Interest Payment Date to the date of maturity or prepayment of the Certificates, whichever is earlier. The Interest Component shall be computed on the basis of a 360-day year, comprised of 12 months of 30 days each. The proportion of the Lease Payments designated as the Interest Component shall be determined by the rate of interest applicable to the respective Certificates.

SECTION 2.5. Form of Certificates; Temporary Certificates. The Certificates and the form of assignment to appear thereon shall be substantially in the respective forms set forth in Exhibit A attached hereto and incorporated herein. Pending the preparation of definitive Certificates, at the request of the Original Purchaser and the City, the Trustee may deliver the Certificates in temporary form, in lieu of definitive Certificates and subject to the same limitations and conditions, exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be requested by the Original Purchasers, shall be without coupons and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If the Trustee delivers temporary Certificates, it shall execute and delivered definitive Certificates in an equal aggregate principal amount in authorized denominations, and bearing the same rate or rates of interest and date or dates of maturity as that of the temporary Certificates, when available, without additional charge, and thereupon the temporary Certificates shall be surrendered to the Trustee at its Principal Office, and the Trustee shall cancel the same. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Trust Agreement as definitive Certificates.

SECTION 2.6. Execution. The Certificates shall be executed by and in the name of the Trustee by the manual signature of any authorized signatory of the Trustee. The Trustee shall insert the date of execution of each Certificate in the place provided thereon.

SECTION 2.7. Application of Proceeds and Other Amounts. The net proceeds received by the Trustee from the sale of the Certificates in the amount of \$_____ and certain other amounts received from the City in the amount of \$_____ shall be set aside by the Trustee in the following respective funds and in the following order of priority:

(a) The Trustee shall deposit an amount equal to \$_____ with the 1996 Escrow Agent for application in accordance with the 1996 Escrow Agreement;

(b) The Trustee shall deposit an amount equal to \$_____ with the 2003 Escrow Agent for application in accordance with the 2003 Escrow Agreement; and

(c) The Trustee shall deposit an amount equal to \$_____ into the Delivery Costs Fund.

The proceeds received by the Trustee from the sale of any Series of Additional Certificates shall be set aside by the Trustee as set forth in the Supplemental Trust Agreement pursuant to which such Additional Certificates are delivered.

The Trustee may establish such temporary funds or accounts on its records as it deems appropriate to facilitate such deposits and transfers.

SECTION 2.8. Transfer and Exchange.

(a) **Transfer of Certificates.** Any Certificate may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of Section 2.11 by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed; provided, however, that the Trustee shall not effect the transfer of any Certificate during the period established by the Trustee for selection of Certificates for prepayment or of any Certificate selected for prepayment. Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same Series, maturity and interest rate, and for a like aggregate principal amount.

(b) **Exchange of Certificates.** Certificates may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same Series, maturity and interest rate; provided, however, that there shall be no exchange of Certificates during the period established by the Trustee for selection of Certificates for prepayment or of any Certificate selected for prepayment. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. All Certificates surrendered pursuant to the provisions of this Section shall be cancelled by the Trustee and shall not be redelivered.

SECTION 2.9. Mutilated, Lost, Destroyed or Stolen Certificates. If any Certificate shall become mutilated, the Trustee shall execute and deliver a new Certificate of like tenor and maturity in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to

the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, shall execute and deliver a new Certificate of like Series, tenor and maturity and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee from the Owner of such lost, destroyed or stolen. Certificates for each new Certificate delivered under this Section. Any Certificate executed and delivered under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate which has been mutilated, lost, destroyed or stolen, and which has matured, or which has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of indemnity satisfactory to the Trustee.

SECTION 2.10. Use of Depository Trust Company. Notwithstanding any provision of this Trust Agreement to the contrary:

(a) The Certificates shall be initially delivered and registered as provided in Section 2.4. Registered ownership of the Certificates, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of the DTC or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a "substitute depository"); provided that any successor of DTC or a substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any substitute depository designated by the City and not objected to by the Trustee, upon (1) the resignation of DTC or its successor (or any substitute depository or its successor) or (2) a determination by the City that DTC or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as the City's security depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of DTC or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Trustee can be obtained or (2) a determination by the City that it is in the best interests of the City to remove DTC or its successor (or any substitute depository or its successor) from its functions as securities depository hereunder.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Certificates by the Trustee, together with a request from the City to the Trustee, a single new Certificate shall be executed and delivered in the aggregate principal amount of each maturity of the Certificates then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such request from the City. In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Certificates by the Trustee, new Certificates shall be executed and

delivered in such denominations numbered in consecutive order from R-1 up and registered in the names of such persons as are requested in such a request from the City, subject to the limitations of Section 2.4 hereof, provided that the Trustee shall not be required to deliver such new Certificates within a period less than sixty (60) days from the date of receipt of such a request from the City.

(c) In the case of partial prepayment or an advance refunding of the Certificates evidencing all or a portion of the principal amount thereof Outstanding, DTC shall make an appropriate notation on the Certificates indicating the date and amounts of such reduction in principal. The Trustee shall not be liable for any error or omission by DTC in making such notation and the records of the Trustee as to the outstanding principal amount of the Certificates shall be controlling.

(d) The City and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the Owner thereof for all purposes of this Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying or otherwise dealing with any beneficial owners of the Certificates. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including DTC or its successors, except for the Owner of any Certificate.

(e) So long as the Outstanding Certificates are registered in the name of DTC or its registered assigns, the City and the Trustee shall cooperate with DTC, as sole registered Owner, and its registered assigns, in effecting payment of the principal of and prepayment premium, if any, and interest with respect to the Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 2.11. Certificate Register. The Trustee will keep or cause to be kept, at its Principal Office, sufficient books for the registration and transfer of the Certificates which shall at all times be open to inspection by the City and the Corporation during regular business hours with reasonable prior notice; 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 said books, Certificates as hereinbefore provided. The City, the Corporation and the Trustee shall be entitled to treat the registered owner of a Certificate as the absolute owner thereof for all purposes, whether or not a Certificate shall be overdue, and the City, the Corporation and the Trustee shall not be affected by any notice to the contrary.

SECTION 2.12. Execution and Delivery of Additional Certificates. In addition to the Certificates designated as Series 2012, the City, the Corporation and the Trustee may by execution of a Supplemental Trust Agreement, without the consent of the Owners of any Certificates, provide for the execution and delivery of Additional Certificates in one or more Series. The Trustee may execute and deliver to or upon the request of the Corporation such Additional Certificates, in such principal amounts as shall reflect the additional principal components of the Lease Payments and the proceeds of such Additional Certificates may be applied to pay the costs of any additional project, as specified in the Supplemental Trust Agreement. Such Additional Certificates may only be executed and delivered upon compliance by the City with the provisions of Section 2.13 hereof, and subject to the following specific conditions, which are hereby made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) The City shall not be in default under this Trust Agreement or any Supplemental Trust Agreement or under the Lease;

(b) The aggregate principal amount of Certificates and any Additional Certificates executed and delivered at any time Outstanding hereunder or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by this Trust Agreement or by any Supplemental Trust Agreement;

(c) The Lease shall have been amended so as to increase the Lease Payments payable by the City thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; provided, however, that no such amendment shall be made such that the sum of Lease Payments, including any additional Lease Payments required by such amendment, shall be in excess of the fair rental value of the Leased Premises after taking into account any amendment of the description of the Leased Premises in connection with the execution and delivery of Additional Certificates;

(d) If the City holds fee title to the Leased Premises to be added, the Site Lease shall have been amended to take into account any amendment of the description of such Leased Premises in connection with the execution and delivery of Additional Certificates;

(e) The Supplemental Trust Agreement shall provide payment dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Lease Payments are due and shall provide for the creation of accounts and subaccounts, if any, within existing funds and accounts established hereunder which relate to the Series of Additional Certificates; and

(f) The issuance of such Additional Certificates may not result in a reduction in the credit rating of any Certificates then Outstanding.

Any Additional Certificates shall be on a parity with, and each Owner thereof shall have the same rights upon an event of default as the Owner of, any other Certificates executed and delivered under this Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

SECTION 2.13. Proceedings for Authorization of Additional Certificates.

Whenever the City shall determine to authorize the execution and delivery of any Additional Certificates pursuant to Section 2.12 hereof and Section 4.7 of the Lease, the City and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of Section 2.12, shall provide for the distinctive designation, denominations, dates, principal payment dates, interest rates, interest payment dates, provisions for prepayment and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the City shall file or cause to be filed the following documents with the Trustee:

(a) An opinion of Special Counsel, addressed to the Trustee, setting forth (1) that such counsel has examined the Supplemental Trust Agreement and the amendment to the Lease required by Section 2.12(c) hereof; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the City; (3) that the amendments to the Lease and the Supplemental Trust Agreement, when duly executed and delivered by the City, will be valid and binding obligations of the City; (4) that this Trust Agreement creates a valid pledge to secure the payment Lease Payments with respect to the Additional Certificates; (5) that the amendment to the Lease has been duly authorized, executed and delivered; and (6) that the amendment to the Lease does not adversely affect the exclusion from gross income of interest with respect to the Outstanding Certificates for Federal income tax purposes.

(b) A certification of the City that the requirements of Section 2.12 hereof have been met, which shall include a Certification by the City as to the fair rental value of the Leased Premises, sufficient to support payment of Lease Payments with respect to all Outstanding Certificates after giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom.

(c) An executed counterpart or duly authenticated copy of the Supplemental Trust Agreement and the amendment to the Lease and to the Site Lease required by Section 2.12 hereof.

(d) Evidence of compliance with Section 2.12.

(e) A certificate of insurance verifying coverage under the policies of insurance required by the Lease.

Upon the delivery to the Trustee of the foregoing instruments, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of the City.

ARTICLE III

DELIVERY COSTS FUND

SECTION 3.1. Establishment of Delivery Costs Fund. There is hereby established a Delivery Costs Fund designated as the "City of Manhattan Beach 2012 Delivery Costs Fund" (the "Delivery Costs Fund"), which shall be maintained by the Trustee as a separate trust account and shall be administered in accordance with the provisions of this Article. Amounts on deposit in the Delivery Costs Fund shall be applied by the Trustee to the payment of Delivery Costs upon receipt of a Requisition from the City, substantially in the form set forth in Exhibit B hereto, stating the amount of each such payment, the payee and the purpose for which such payment will be applied. On the date which is 120 days following the Closing Date, the Trustee shall transfer any remaining moneys in the Delivery Costs Fund into the Lease Payment Fund to be applied to the payment of the Principal Component and the Interest Component of the Certificates in the manner described in Section 5.3 hereof and the Trustee shall close the Delivery Costs Fund.

ARTICLE IV

PREPAYMENT OF CERTIFICATES

SECTION 4.1. Establishment of Prepayment Fund. The Certificates shall be subject to prepayment as provided in this Article IV and, with respect to Additional Certificates, as may be additionally set forth in the Supplemental Trust Agreement if any, pursuant to which such Additional Certificates are delivered. The Trustee shall establish a special fund designated as the "City of Manhattan Beach 2012 Prepayment Fund" (the "Prepayment Fund"); shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as herein provided. Prior to any Prepayment, sufficient moneys to be used for prepayment of the Certificates shall be transferred by the City to the Trustee, for deposit into the Prepayment Fund and be used solely for the purpose of prepaying all or a portion of the Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates.

SECTION 4.2. Prepayment From Net Insurance Proceeds. The Certificates are subject to prepayment on any Payment Date, in whole or in part (in integral multiples of \$5,000), from Net Insurance Proceeds deposited in the Prepayment Fund at least 60 days prior to a Payment Date and credited towards the Prepayment made by the City pursuant to Section 10.2 of the Lease, at a prepayment price equal to the Principal Component thereof, together with accrued Interest Component to the date fixed for prepayment, without premium. To the extent that Net Insurance Proceeds are not sufficient to provide for the prepayment price of the Certificates, the City shall make a deposit in the amount of the deficiency from lawfully available moneys of the City.

Whenever Net Insurance Proceeds are set aside for prepayment of Certificates under this Section, they shall, promptly upon receipt and upon the Trustee's receipt of written instructions from the City, be invested in securities in the State and Local Government Series of the United States Department of Treasury or in obligations described in section 103(a) of the Code, in each case, maturing in time and amount to provide payment in full of the Interest Component and Principal Component of the affected Certificates; provided however, that the City shall not be in violation of this Section if it applies its best efforts in obtaining such investments but is nonetheless unsuccessful.

SECTION 4.3. Mandatory Sinking Fund Prepayment. The Certificates maturing on January 1, 20__, are subject to mandatory sinking fund prepayment prior to maturity at a prepayment price equal to the Principal Component of the Certificates to be prepaid each year, plus accrued interest with respect thereto to the prepayment date, on January 1 of each year, commencing January 1, 20__, in the Principal Components and on the prepayment dates as follows:

Mandatory Sinking Fund Prepayment Date (January 1)	Principal Component
--	------------------------

Maturity.

SECTION 4.4. Optional Prepayment. The Certificates maturing on or after January 1, 20__ are subject to prepayment in whole or in part (in integral multiples of \$5,000) on any date on or after January 1, 20__ from moneys deposited into the Prepayment Fund as a result of the exercise by the City of its option to prepay its Lease Payments, at the prepayment prices equal to the Principal Component of Certificates to be prepaid plus accrued interest to the date fixed for prepayment, without premium.

SECTION 4.5. Selection of Certificates for Prepayment; Partial Prepayment. (a) Except as otherwise provided herein, whenever provision is made in this Trust Agreement for the prepayment of Certificates and fewer than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment from the Outstanding Certificates not previously called for prepayment among maturities as directed in writing by the City, and by lot of within any maturity, or if not so directed by City, in any manner which the Trustee shall in its sole discretion deem appropriate and fair, which decision shall be final and binding upon the City, the Corporation and the Owners. The Trustee shall promptly notify the City and the Corporation in writing of the Certificates so selected for prepayment.

(b) All or a portion of any Certificate may be prepaid, but only in a Principal Component equal to an integral multiple of \$5,000. Upon surrender by the Owner of a Certificate for partial prepayment, such partial prepayment of the Principal Component will be made by check mailed by first class mail to the Owner at his or her address as it appears on the registration books of the Trustee. Partial prepayments of Certificates shall be made in accordance with Section 4.7.

SECTION 4.6. Notice of Prepayment. When prepayment is authorized or required pursuant to Sections 4.2, 4.3 or 4.4, the Trustee shall give notice of the prepayment of the affected Certificates. Such notice shall specify: (a) that the Certificates or a designated portion thereof are to be prepaid, (b) the CUSIP numbers, the numbers and dates of maturity of the Certificates to be prepaid, (c) the date of prepayment, and (d) the place or places where the prepayment will be made. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the Principal Component to be prepaid, together with the Interest Component accrued to said date, and that from and after such date the Interest Component shall cease to accrue and be payable.

Notice of such prepayment shall be mailed by first class mail, postage prepaid, to the City, the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, not less than 30 days, but not more than 60 days, prior to the prepayment date; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Failure by an Owner, securities depository or information service to receive notice as provided in this Trust Agreement shall not affect the validity of the prepayment.

Each check or other transfer of funds issued or made by the Trustee for the purpose of prepaying the Certificates shall to the extent practicable identify by designation and maturity the Certificates being prepaid with the proceeds of such check or other transfer.

Failure by an Owner, listed above to receive notice as provided herein shall not affect the validity of the prepayment.

SECTION 4.7. **Partial Prepayment of Certificates.** Upon surrender by the Owner of a Certificate for partial prepayment, payment of such partial prepayment of the Principal Component will be made by check mailed by first class mail to the Owner at his address as it appears on the registration books of the Trustee. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates which shall be of authorized denominations equal in aggregate principal amount to the unprepaid Principal Component of the Certificate surrendered and of the same interest rate and the same maturity. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the City, the Corporation and the Trustee shall be released and discharged from all liability to the extent of such payment; provided that, so long as the Certificates are held in book-entry form by DTC, Certificates need not be surrendered for partial prepayment.

SECTION 4.8. **Effect of Notice of Prepayment.** Notice having been given as aforesaid, and the moneys for the prepayment (including the Interest Component accruing through the applicable date of prepayment) having been set aside in the Lease Payment Fund or the Prepayment Fund, the Certificates so called shall become due and payable on said date of prepayment, and upon presentation and surrender thereof at the office or offices specified in said notice, said Certificates shall be paid in the amount of the unpaid Principal Component, plus the Interest Component accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, and premium, if any, together with the Interest Component accrued to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, the Interest Component with respect to such Certificates shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of this Article shall be cancelled upon surrender thereof.

ARTICLE V

LEASE PAYMENTS; LEASE PAYMENT FUND

SECTION 5.1. **Security Provisions.**

(a) **Assignment of Rights in Lease.** The Corporation has, pursuant to the Assignment Agreement, assigned and set over to the Trustee all of its rights in the Lease, including but not limited to all of the Corporation's rights to receive and collect the Lease Payments, Prepayments, Additional Payments and any other amounts required to be paid pursuant to the Lease or pursuant hereto, excepting only its right to indemnification. All Lease Payments, Prepayments,

Additional Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments and Prepayments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof; and all such Lease Payments, Prepayments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund or the Prepayment Fund, as appropriate.

(b) Security Interest in Moneys and Funds. The Corporation and the City, as their interests may appear, hereby grant to the Trustee for the benefit of the Owners a lien on and a security interest in all moneys in the funds and accounts held by the Trustee under this Trust Agreement (except the Rebate Fund), including without limitation, the Lease Payment Fund, the Prepayment Fund and the Net Insurance Proceeds Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified herein and in the Lease.

(c) Pledge of Lease Payments. The Lease Payments are hereby irrevocably pledged to and shall be used for the punctual payment of the Interest Component and the Principal Component, and the Lease Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on the Lease Payments in accordance with the terms hereof.

(d) Establishment of Lease Payment Fund. The Trustee shall also establish a special fund designated as the "City of Manhattan Beach 2012 Lease Payment Fund" (the "Lease Payment Fund"). All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in this Trust Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

SECTION 5.2. **Deposits.** There shall be deposited into the Lease Payment Fund certain deposits received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to Section 4.3 (regarding Lease Payments) of the Lease and any other moneys required to be deposited therein pursuant to the Lease or pursuant to this Trust Agreement. On or prior to each June 1 and December 1, the Trustee shall notify the City of the amounts on deposit in the Lease Payment Fund to be credited toward the Lease Payments due on the next succeeding Lease Payment Date.

SECTION 5.3. **Application of Moneys.** Except as provided in Section 13.3, all amounts in the Lease Payment Fund, shall be used and withdrawn by the Trustee solely for the purpose of paying the Principal Component and the Interest Component as the same shall become due and payable, in accordance with the provisions of Article II and Article IV.

The Trustee shall apply moneys on deposit in the Lease Payment Fund in the following order of priority:

(a) On or before each Payment Date, an amount sufficient to pay the Interest Component due and payable on such date shall be set aside by the Trustee and mailed (or sent by wire transfer, as appropriate) to the Owners of the Certificates;

(b) On or before each Principal Payment Date, an amount sufficient to pay the Principal Component coming due and payable on the Certificates on such date shall be set aside by the Trustee and applied to the payment of such Principal Component; and

(c) To the extent that Prepayments are made on each date set for prepayment of Certificates pursuant to Sections 4.2, 4.3 and 4.4, the amount prepaid shall be deposited into the Prepayment Fund to be applied for the prepayment of Certificates in accordance with the applicable Section.

SECTION 5.4. Investment Earnings. The Trustee shall deposit all earnings resulting from the investment of moneys deposited in any fund or account held under this Trust Agreement to the Lease Payment Fund.

SECTION 5.5. Surplus. Any funds remaining in the Lease Payment Fund, after prepayment and payment of all Certificates Outstanding, or provision having been made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

ARTICLE VI

[RESERVED]

ARTICLE VII

NET INSURANCE PROCEEDS FUND

SECTION 7.1. Establishment of Net Insurance Proceeds Fund; Application of Net Insurance Proceeds.

(a) Any Net Insurance Proceeds collected by the City shall be transferred to the Trustee pursuant to Section 6.2(a) of the Lease and deposited by the Trustee in a special fund to be then established and designated as the "City of Manhattan Beach 2012 Net Insurance Proceeds Fund" (the "Net Insurance Proceeds Fund") to be held in trust and applied and disbursed by the Trustee as provided in Section 6.2 of the Lease.

(b) If the Leased Premises are taken by condemnation proceedings, the Net Insurance Proceeds therefrom shall be deposited in the Net Insurance Proceeds Fund promptly upon receipt thereof within ninety (90) days after such Net Insurance Proceeds are delivered to the Trustee and the City shall certify to the Trustee (a) as to whether the Leased Premises have been taken in whole or in part pursuant to such proceedings, (b) as to whether the remaining portion of the Leased Premises is still useful for the purposes originally intended and (c) as to whether it desires that any available Net Insurance Proceeds from such condemnation proceedings be applied for replacement of the Leased Premises and, if so, that sufficient funds, together with such Net Insurance Proceeds, have been appropriated to pay the total cost of such replacement. If such certification is to the effect that the Leased Premises have been taken in whole pursuant to such condemnation proceedings or has been taken in part to such extent that the remaining portion of Leased Premises is no longer useful for the purposes originally intended, the Trustee shall transfer all of such Net Insurance Proceeds to the Prepayment Fund to be applied to the prepayment of the Certificates. If such certification is to the effect that the Leased Premises has been taken in part pursuant to such condemnation proceedings

and that the remaining portion of the Leased Premises is still useful for the purposes originally intended, the Trustee shall transfer such Net Insurance Proceeds to the Prepayment Fund to be applied to the prepayment of Certificates pursuant to Section 4.2 hereof; provided that, if such certification is also to the effect that the City desires that any available Net Insurance Proceeds be applied for replacement of the Leased Premises and if the City further certifies that sufficient funds, together with such Net Insurance Proceeds, have been appropriated or are otherwise available to pay the total cost of such replacement, the Trustee will disburse such Net Insurance Proceeds to the City upon receipt of its requisitions therefor in order for the City to cause the Leased Premises to be replaced or improved to at least the same good order, repair and condition as it was in prior to the condemnation proceedings, insofar as the same may be accomplished with said funds, and the Trustee shall transfer any excess Net Insurance Proceeds to the Lease Payment Fund to be credited against the next Lease Payment.

SECTION 7.2. **Excess Net Insurance Proceeds.** After all of the Certificates have been retired and discharged and the entire amount of the Principal Component and Interest Component have been paid in full, or provision having been made therefor satisfactory to the Trustee, including payment of the Trustee's fees and expenses, the Trustee shall then pay any remaining moneys in the Net Insurance Proceeds Fund to the City.

SECTION 7.3. **Cooperation.** The Corporation and the Trustee shall cooperate fully with the City, at the expense of the City, in filing any proof of loss with respect to any insurance policy maintained pursuant to Article V of the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to any part of the Leased Premises; provided the Trustee shall not be obligated to provide such cooperation unless it has been indemnified to its satisfaction from any liability or expense related to or arising therefrom.

ARTICLE VIII

MONEYS IN FUNDS; INVESTMENT

SECTION 8.1. **Held in Trust.** The moneys and investments held by the Trustee under this Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates with the exception of the moneys in the Rebate Fund, and for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the City or any Owner of Certificates, or any of them other than the lien in favor of Trustee permitted pursuant to Section 9.5 hereof.

SECTION 8.2. **Investments Authorized.** Subject to Section 11.8, moneys held by the Trustee hereunder shall be invested and reinvested by the Trustee in Permitted Investments pursuant to the written direction of the City. The City shall, by written order of the City Representative filed with the Trustee, direct such investment in specific Permitted Investments identified in such written order. Such investments, if registerable, shall be registered in the name of the Trustee or its nominee for the benefit of the Owners and held by the Trustee. Such investment direction shall be made giving full consideration for the time at which funds are required to be available based upon, among other things, scheduled acquisition of the Project. The Trustee and its affiliates may act as sponsor, advisor, principal or agent in the making or disposing of any investment. The Trustee covenants that in the absence of a written order of the City directing investments hereunder, it shall invest such proceeds in instruments described in subsection (7) of the

definition of "Permitted Investments" contained herein. The Trustee shall have no duty or obligation to verify the legality of such investments. The Trustee may commingle any of the moneys in funds held by it pursuant to this Trust Agreement and place them into a separate fund or funds for investment purposes only, provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee.

SECTION 8.3. **Disposition of Investments.** Any income, profit or loss on the investment of moneys held by the Trustee hereunder shall be credited to the fund or account from which the investment was made.

SECTION 8.4. **Accounting.** The Trustee shall furnish to the City each month an accounting statement of all investments made by the Trustee. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this Article. The City and the Corporation acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the City and the Corporation will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

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.

SECTION 8.5. **Valuation of Investments.** In computing the amount in any fund or account, Permitted Investments shall be valued at the market price thereof. With respect to all funds and accounts, the Trustee shall, at the expense of the City, determine the market price thereof no less often than semiannually on January 1 and July 1 of each year or the next preceding Business Day if such day is not a Business Day. Any Permitted Investment shall be deemed to mature on the earliest date that the issuer thereof may be required to repay the principal thereof at par without penalty. The Trustee shall sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

ARTICLE IX

THE TRUSTEE

SECTION 9.1. **Appointment of Trustee.** U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, is hereby appointed Trustee by the Corporation and the City 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 Trust Agreement. The Corporation and the City agree that they will maintain either U.S. Bank National Association or a substitute Trustee which substitute Trustee is a commercial bank, national banking association, or trust company having an office in New York, New York, or Los Angeles, California, which, together with the corporate parent of such Trustee, if any, has a combined capital (exclusive of bon-owed capital) and surplus of at least One Hundred Million Dollars (\$100,000,000), and subject to supervision or examination by Federal or state authority, so long as any Certificates are Outstanding. If such bank, national banking association or

trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of this Section, the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is hereby authorized to pay the Certificates when duly presented for payment at maturity, or upon prepayment, or on purchase by the Trustee of Certificates prior to maturity and to cancel all Certificates upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Certificates paid and discharged. The Trustee shall be compensated for its services rendered pursuant to the provisions of this Trust Agreement.

So long as no Event of Default shall have happened and be continuing, the City may remove the Trustee initially appointed for good cause, and any successor thereto; and may appoint a successor or successors thereto; provided, that any such successor shall be a bank, national banking association or trust company meeting the requirements set forth in this Section.

The Trustee may resign by giving thirty days prior written notice to the City and the Corporation. Upon receiving such notice of resignation, the Corporation shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee shall mail notice thereof to the Certificate Owners at their respective addresses set forth on the Certificate registration books maintained pursuant to Section 2.11. In the event the Corporation does not name a successor Trustee within 30 days of receipt of notice of the Trustee's resignation, then the Trustee, at the expense of the City, may petition a court of proper jurisdiction to seek the immediate appointment of a successor Trustee.

SECTION 9.2. Liability of Trustee. The recitals of facts herein, in the Assignment Agreement and in the Certificates contained shall be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of this Trust Agreement or the Certificates as to the value or condition of the trust estate or any part thereof, as to the title of the City thereto, as to the security afforded thereby or by this Trust Agreement, as to the tax status of the Interest Component, or as to the technical or financial viability of the City, and shall incur no responsibility in respect thereof. The Trustee shall not be accountable for the use or application by the City of the Certificates or the proceeds thereof or of any moneys paid to the City pursuant to the terms of this Trust Agreement. The Trustee shall, however, be responsible for its representations in relation to the execution of the Certificates. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct. The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent (other than an employee) or attorney appointed with due care. The City shall not be deemed an agent of the Trustee for any purpose, and the Trustee shall not be responsible for the compliance of the City in its duties hereunder in connection with the transactions contemplated herein. The Trustee may become the Owner of the Certificates with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depositary for and permit any of their 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 Certificate Owners, whether or not such committee shall represent the Certificate Owners or a majority thereof. No provision of this Trust Agreement shall require the Trustee to expend or risk its

own funds or otherwise incur any financial liability in the performance of its duties hereunder or thereunder, or in the exercise of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to its satisfaction.

In accepting the trusts hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners, Corporation and City having any claim against the Trustee arising from the Trust Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, express 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 or fitness for the use contemplated by the Corporation and the City of the Project or the Leased Premises. 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 Trust Agreement for the existence, furnishing or use of the Project or the Leased Premises.

The Trustee shall not be responsible for the sufficiency or enforceability of the Lease or the assignment under the Assignment Agreement of its rights to receive Lease Payments.

The Trustee shall not be accountable for the use or application by the City or any other party of any funds which the Trustee has released in accordance with the provisions of this Trust Agreement.

SECTION 9.3. Merger or Consolidation. Any company or national banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company or national banking association resulting from any merger, conversion or consolidation to which it shall be a party or any company or national banking association to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company or national banking association shall meet the requirements set forth in Section 9.1, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding. Notice of such merger or consolidation shall be given to the City and the Corporation.

SECTION 9.4. Protection and Rights of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, including, but not limited to, the legality of any investment in which Trustee is instructed to invest, but may, in the absence of bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the City, 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 the Trustee hereunder in good faith in accordance therewith.

Whenever in the administration of its duties under this Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed), in the absence of bad faith on its part, shall be deemed to be conclusively proved and established by the certificate of the City Representative or the Corporation Representative and such certificate shall be full warranty to the Trustee, in the absence of bad faith on its part, for any action taken or suffered under the provisions of this Trust Agreement upon the faith thereof, 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 seem reasonable to the Trustee.

The Trustee may be or become the Owner of the Certificates with the same rights it would have if it were not Trustee; may acquire and dispose of any bonds or other evidence of indebtedness of the City with the same rights it would have if it were not the Trustee and may act as a 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 the Owners whether or not such committee shall represent the Owners of the majority in aggregate principal amount of the Certificates then Outstanding.

The Trustee shall not be answerable for the exercise of any discretion or power under this Agreement or for anything whatever in connection with the funds and accounts established hereunder, except only for its own negligence or willful misconduct hereunder.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until a Responsible Officer shall have actual knowledge thereof, or shall have received written notice thereof, at its Principal Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Certificates, or as to the existence of an Event of Default thereunder.

The Trustee shall have 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 Certificates.

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

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of a majority (or other percentage provided for herein) in aggregate principal amount Certificates outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Trust Agreement shall not be construed as a duty.

SECTION 9.5. Compensation of the Trustee. The City or the Corporation shall from time to time on demand, pay to the Trustee reasonable compensation for its services and shall

reimburse the Trustee for all its advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys or other experts employed by it in the exercise and performance of its powers and duties hereunder and the Trustee shall have a lien therefor on any and all funds at any time held by it under this Trust Agreement, which lien shall not be prior and superior to the lien of the Certificate Owners unless there has occurred an Event of Default in which event the lien of the Trustee shall be prior and superior to the lien of the Owners. The City's and Corporation's obligations hereunder shall remain valid and binding, notwithstanding the maturity and payment of the Certificates. The compensation of the Trustee hereunder shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust.

SECTION 9.6. Indemnification of Trustee. To the extent permitted by law, the City shall indemnify and save the Trustee its officers, employees, agents, successors or assigns harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Project or the Leased Premises by the City, (ii) any breach or default on the part of the City in the performance of any of its obligations under this Trust Agreement and any other agreement made and entered into for purposes of the Project, (iii) any act of negligence of the City or of its agents, contractors, servants, employees or licensees with respect to the Project or the Leased Premises, (iv) any act of negligence of any assignee of, or purchaser from, the City or its agents, contractors, servants, employees or licensees with respect to the Project or the Leased Premises, (v) the construction or acquisition of the Project or Project Costs, (vi) the actions of any other party, including but not limited to the ownership, operation or use of the Project or the Leased Premises by the City, or (vii) the Trustee's exercise and performance of its powers and duties hereunder or pursuant to the Lease. No indemnification will be made under this Section or elsewhere in this Trust Agreement for negligence or willful misconduct by the Trustee, its officers or employees. The City's obligations hereunder shall remain valid and binding notwithstanding defeasance, maturity and payment of the Certificates or the resignation or removal of the Trustee.

ARTICLE X

MODIFICATION OR AMENDMENT OF AGREEMENTS

SECTION 10.1. Amendments Permitted. This Trust Agreement and the rights and obligations of the Owners and the Site Lease, the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least 51% in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 10.3, shall have been filed with the Trustee; provided, that the Trustee shall enter into a Supplemental Trust Agreement with the Corporation and the City upon the City's entering into a Supplemental Lease Agreement with the Corporation. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of the Interest Component, or reducing the amount of Principal Component thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of this Trust Agreement or the Lease, or (3) modify any of the rights or obligations of

the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in Section 10.2.

This Trust Agreement and the rights and obligations of the Owners, the Lease, the Site Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without notice to or the consent of any such Owners, but only to the extent permitted by law and only (1) to cure, correct or supplement any ambiguous or defective provision contained herein or therein, (2) in regard to matters arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which shall not materially adversely affect the interest of the Owners, (3) to satisfy the requirements of the Rating Agency, or (4) with respect to the Lease and the Site Lease, as permitted therein to permit the substitution of Project Components or the Leased Premises in accordance with the Lease and to modify the description of the site on which the Project Components are located. Any such supplemental agreement with respect to this Trust Agreement and the Lease shall require the unanimous consent of all parties hereto and thereto, as the case may be. Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto or thereto as the case may be.

SECTION 10.2. Procedure for Amendment with Written Consent of Owners.

This Trust Agreement or the Lease may be amended by supplemental agreement as provided in this Section in the event the consent of the Owners is required pursuant to Section 10.1. A copy of such supplemental agreement, together with a request to the Owners for their consent thereto, shall be mailed, by first class mail by the Trustee, at the expense of the City, to each Owner at his address as set forth in the Certificate registration books maintained pursuant to Section 2.11, but failure to receive copies of such supplemental agreement and requests mailed shall not affect the validity of the supplemental agreement when assented to as in this Section provided.

Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consent of the Owners of at least 51% in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in Section 10.3) and notices shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof shall be such as is permitted by Section 2.11. Any such consent shall be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a Subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Certificates shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Certificate Owners in the manner hereinabove provided in this Section for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of such supplemental agreement or the consents thereto). A record, consisting of the papers required by this Section to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved. Such supplemental agreement shall become effective upon the mailing of the notice hereinabove in this Section provided, and such supplemental agreement shall be deemed conclusively binding upon the parties hereto and the Owners of all Certificates at the expiration of 60 days after such mailing, except in the event of a final decree of a

court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such 60-day period.

SECTION 10.3. Disqualified Certificates. Certificates known by the Trustee to be owned or held by or for the account of the City or the Corporation or by any person directly or indirectly controlled by, or under direct or indirect common control of, the City or the Corporation (except any Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action provided for in this Trust Agreement, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Trust Agreement.

SECTION 10.4. Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to this Article, the Trust Agreement or the Lease, as the case may be, shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder and thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of this Trust Agreement or the Lease, as the case may be, for any and all purposes.

SECTION 10.5. Endorsement or Replacement of Certificates Delivered After Amendments. The Trustee may determine that Certificates delivered after the effective date of any action taken as provided in this Article X shall bear a notation, by endorsement, in form approved by the Trustee, as to such action. In that case, upon demand of the Owner of any Certificate Outstanding at such effective date and presentation of his Certificate for that purpose at the office of the Trustee, a suitable notation shall be made on such Certificate. The Trustee may determine that new Certificates, so modified as in the opinion of the Trustee is necessary to conform to such Certificate Owner's action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such new Certificate shall be exchanged in the Principal Office of the Trustee without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

SECTION 10.6. Amendatory Endorsement of Certificates. Subject to Section 10.1, the provisions of this Article shall not prevent any Owner from accepting any amendment as to the particular Certificates held by such Owner, provided that due notation thereof is made on such Certificates in accordance with the requirements of Section 10.5 hereof.

ARTICLE XI

COVENANTS; NOTICES

SECTION 11.1. Compliance with and Enforcement of the Lease. The City covenants and agrees with the Owners to perform all obligations and duties imposed on it hereunder and under the Lease. The Corporation covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease.

The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from action, would or might be a basis for cancellation or termination of the Lease by the Corporation

thereunder. The Corporation and the City, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or any of them, in the Project or the Leased Premises, which may or can in any manner affect such estate of the City, will deliver the same, or a copy thereof, to the Trustee.

SECTION 11.2. **Payment of Taxes.** The City shall pay all taxes and assessments that may be charged with respect to the Project or the Leased Premises as provided in Section 5.1 of the Lease.

SECTION 11.3. **Observance of Laws and Regulations.** The City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City, including its right to exist and carry on business as a city to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

SECTION 11.4. **Prosecution and Defense of Suits.** The City shall promptly, and also upon request of the Trustee or any Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Project and the Leased Premises, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

SECTION 11.5. **City Budgets.** The City shall supply to the Trustee, prior to the beginning of each Fiscal Year, a certification that the City has made adequate provision in its proposed annual budget for the payment of Lease Payments due under the Lease in the Fiscal Year covered by such budget. The certification given by the City to the Trustee shall be to the effect that the amounts so budgeted are fully adequate for the payment of all Lease Payments due in the ensuing Fiscal Year. The Trustee shall be protected in relying upon any certification or such notice from the City, and the Trustee shall have no responsibility for the evaluation of such budget data.

SECTION 11.6. **Further Assurances.** The Corporation and the City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Trust Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided herein.

SECTION 11.7. **Tax Covenants.** Notwithstanding any other provision of this Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest on the Certificates will not be adversely affected for federal income tax purposes, the Corporation and the City covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) **Private Activity.** Neither the Corporation nor the City will take or omit to take any action or make any use of the proceeds of the Certificates provided herein or of any other

moneys or property which would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) Arbitrage. Neither the Corporation nor the City will make use of the proceeds of the Certificates provided herein or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guarantee. Neither the Corporation nor the City will make use of the proceeds of the Certificates provided herein or take or omit to take any action that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The Corporation and the City will take or cause to be taken all necessary actions to comply with the informational reporting requirements of Section 149(e) of the Code.

(e) Compliance with Tax Certificate. Neither the Corporation nor the City will take action inconsistent with its expectations stated in any tax certificate executed with respect to the Certificates and will comply with the covenants and requirements stated therein and incorporated by reference herein. In furtherance of the foregoing tax covenants of this Section, the Corporation and the City will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the Corporation or the City from issuing, bonds the interest on which has been determined by Special Counsel to be subject to federal income taxation.

SECTION 11.8. Arbitrage Covenant.

(a) **Establishment.** The Trustee shall establish a separate account for the Certificates designated as the "City of Manhattan Beach 2012 Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such other accounts as it is instructed by the City as shall be necessary to comply with the terms and requirements of the Tax Certificate. Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest on the Certificates will not be adversely affected, the City shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section, Section 3.3 hereof and the Tax Certificate. Subject to the transfer provisions provided in Subsections (c) and (h) hereof, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury, and no other person shall have any rights in or claim to such money. All amounts on deposit in the Rebate Fund for the Certificates shall be governed by this Section and the Tax Certificate for the Certificates, unless and to the extent that the City delivers to the Trustee an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest on the Certificates will not be adversely affected if such requirements are not satisfied. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the City including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder, in the absence of written directions by the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Trustee shall have no responsibility to make any independent calculations or determinations or to review the City's calculations hereunder.

(b) **Computation.** Within 45 days of the end of each fifth Certificate Year, the City shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Regulations, for this purpose treating the last day of the applicable Certificate Year as a computation date, within the meaning of Section 1.148-1(b) of the Regulations (the "Rebate Amount"). The City shall not be required to calculate the Rebate Amount, and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this Subsection (b), with respect to all or a portion of the proceeds of the Certificates (including amounts treated as proceeds of the Certificates) (i) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Regulations, whichever is applicable, and otherwise qualify for the exception to the [Rebate Requirement] pursuant to whichever of said Sections is applicable, (ii) to the extent such proceeds are subject to an election by the City under Section 148(1)(4)(C)(vii) of the Code to pay a 11/2% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (iii) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a "bona fide debt service fund." In such event, and with respect to such amounts, the City shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this Subsection (b). The City shall obtain expert advice as to the Rebate Amount to comply with this Section.

(c) **Transfer.** Within 55 days of the end of each fifth Certificate Year, upon the written request of the City an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the City from any legally available sources for such purpose (as specified by the City in the aforesaid written Request), if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Amount so calculated in accordance with Subsection (b) hereof. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit

to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written request of the City, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Lease Payment Fund.

(d) Payment to the Treasury. The Trustee shall pay, as directed by request of the City to the United States Treasury, out of amounts in the Rebate Fund, subject to the exceptions contained in Subsection (b) hereof,

(i) not later than 60 days after the end of (x) the fifth Certificate Year, and (y) each applicable fifth Certificate Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebate Amount (calculated as of the end of such Certificate Year) and all previous rebate payments; and

(ii) not later than 60 days after the payment of all the Certificates, an amount equal to 100% of the Rebate Amount calculated as of the date of such payment and any income attributable to the Rebate Amount determined to be due and payable, computed in accordance with Section 1.148-3 of the Regulations.

(e) Deficiencies. In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due.

(f) Withdrawals of Excess Amounts. In the event that immediately following the calculation required by Subsection (b) hereof, but prior to any deposit made under said Subsection, the amount on deposit in the Rebate Fund exceeds the Rebate Amount calculated in accordance with said Subsection, upon written instructions from the City, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Capitalized Interest Account of the Lease Payment Fund.

(g) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment in full of the Certificates and the payments described in Subsection (d) hereof being made may be withdrawn by the Trustee and remitted to the City and utilized in any manner by the City.

(h) Rebate Payments. Each payment required to be made pursuant to Subsection (d) hereof shall be made to the Internal Revenue Service Center, Ogden, Utah, on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, which shall be completed by the City for execution by the City, or shall be made in such other manner as provided under the Code.

(i) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation the obligation to remit the Rebate Amount to the United States and to comply with the requirements of this Section, Section 11.7 hereof and the Tax Certificate shall survive the defeasance or payment in full of the Certificates.

(j) Recordkeeping. The City shall retain records of all determinations made hereunder until six years after the complete retirement of the Certificates.

ARTICLE XII

LIMITATION OF LIABILITY

SECTION 12.1. Limited Liability of the City. Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the City contained herein and in the Lease, the City shall have no obligation or liability to any of the other parties or to the Certificate Owners with respect to this Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

SECTION 12.2. No Liability of the City or Corporation for Trustee Performance. Except as expressly provided herein, neither the City nor the Corporation shall have any obligation or liability to the other parties or to the Certificate Owners with respect to the performance by the Trustee of any duty imposed upon it under this Trust Agreement.

SECTION 12.3. Limited Liability of Trustee. The Trustee shall have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates, for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease (except as provided in this Trust Agreement) or for the actions or representations of any other party to this Trust Agreement. The Trustee shall have no obligation or liability to any of the other parties or the Certificate Owners with respect to this Trust Agreement or the failure or refusal of any other party to perform any covenant or agreement made by any of them under this Trust Agreement or the Lease, but shall be responsible solely for the performance of the duties and obligations expressly imposed upon it hereunder. The recitals of facts, covenants and agreements herein and in the Certificates contained shall be taken as statements, covenants and agreements of the City or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of this Trust Agreement or of the Certificates, shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon it. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

SECTION 12.4. Opinion of Counsel. Before being required to take any action, the Trustee may require an opinion of Special Counsel acceptable to the Trustee which opinion shall be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or a verified certificate of any party hereto, or both, concerning the proposed action. If it does so in good faith, the Trustee shall be absolutely protected in relying thereon. The Trustee shall not be responsible for the sufficiency of the Lease, its right to receive moneys pursuant to the Lease or the value of or title to the Leased Premises or the premises upon which the Project is located or the Project itself. The Trustee shall not be responsible or liable for any losses suffered in connection with any investment of funds made by it under the terms of and in accordance with this Trust Agreement.

SECTION 12.5. Limitation of Rights to Parties and Owners. Nothing in this Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the City, the Corporation, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of this Trust Agreement or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Corporation, the Trustee and the Owners.

ARTICLE XIII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

SECTION 13.1. **Assignment of Rights.** Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee for the benefit of the Owners (1) all of the Corporation's rights to receive Lease Payments and Prepayments without recourse to be paid by the City under and pursuant to the Lease and (2) effective immediately upon the occurrence of an Event of Default under the Lease and without further action on the part of the Corporation, such rights and remedies of the Corporation under the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund, the Net Insurance Proceeds Fund and Prepayment Fund, or (ii) otherwise to protect the interests of the Owners or the Trustee upon the occurrence of an Event of Default.

SECTION 13.2. **Remedies.** If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything herein or in the Lease to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payments not then in default to be immediately due and payable.

SECTION 13.3. **Application of Funds.** All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article or of Article IX of the Lease, shall be deposited into the Lease Payment Fund and be applied by the Trustee in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

(i) First, to the payment of the fees, costs and expenses of the Trustee, for the performance of its duties under this Trust Agreement, and then of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

(ii) Second, to the payment to the persons entitled thereto of all amounts representing the Interest Component then due in the order of the maturity of such installment, and, if the amount available shall not be sufficient to pay in full any Interest Component maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

(iii) Third, to the payment to the persons entitled thereto of the unpaid Principal Component respecting any Certificates which shall have become due, whether at maturity or by call for Prepayment, in the order of their due dates, with interest on the overdue Principal Component and Interest Component at a rate equal to the rate paid with respect to the Certificates and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amount of the Principal Component due on such date to the persons entitled thereto, without any discrimination or preference.

SECTION 13.4. Institution of Legal Proceedings. If one or more Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding received by the Trustee at its Principal Office, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein or in the Lease, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

SECTION 13.5. Non-waiver. Nothing in this Article or in any other provision of this Trust Agreement or in the Certificates shall affect or impair the obligations of the City, which obligations are absolute and unconditional, to pay or prepay the Lease Payments as provided in the Lease. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by this Article to the Trustee or to the Owners may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners.

SECTION 13.6. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

SECTION 13.7. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the occurrence of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it shall have full power, in the exercise of its discretion for the best interest of the Certificate Owners with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

SECTION 13.8. Limitation on Owners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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 Certificates of any remedy hereunder; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to enforce any right under this Trust Agreement, except in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Trust Agreement.

SECTION 13.9. Agreement to Pay Attorneys' Fees and Expenses. In the event the City or Corporation should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or observance of any obligation or agreement on the part of the defaulting party contained herein, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party; provided, however, that the Trustee shall not be required to expend its own funds for any payment described in this Section.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.1. Defeasance. Defeasance shall be deemed to occur if all Outstanding Certificates of a Series are paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the Principal Component and Interest Component and prepayment premiums, if any, with respect to all Certificates Outstanding of a Series, as and when the same become due and payable;

(b) if prior to maturity and having given notice of prepayment by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which, together with amounts then on deposit in the Lease Payment Fund and the Prepayment Fund, is sufficient to pay all Certificates Outstanding of a Series, including all Principal Components and Interest Components and prepayment premium, if any; or

(c) by irrevocably depositing with the Trustee, under an escrow deposit and trust agreement, as security for the payment of the Lease Payments as more particularly described in Section 10.1 of the Lease, noncallable, nonprepayable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Lease Payment Fund relating to such Series, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates of a Series (including all Principal Component and Interest Component represented thereby and prepayment premium, if any) at or before their maturity date, said security to be held by the Trustee as agent for the City to be applied by the Trustee to pay the Lease Payments as the same become due and payable and make a Prepayment in full on any Lease Payment Date, pursuant to Section 10.1 of the Lease, and the fees and expenses of the Trustee have been paid in full.

Notwithstanding that any Certificates of a Series shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to all Outstanding Certificates of such Series shall cease and terminate, except only the obligation of the Trustee pursuant to Section 2.8 hereof and its obligations to pay or cause to be paid, from Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (ii) through (iii) of this Section, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to such paragraphs, the Certificates of such Series shall continue to evidence and represent direct and proportionate interests of the Owners thereof in Lease Payments.

Any funds held by the Trustee, at the time of one of the events described in paragraphs (i) through (iii) of this Section, which are not required for the payment to be made to Owners, as verified by a certified public accountant, shall be paid over to the City pursuant to City's written request therefor; provided that the fees and expenses of the Trustee have been fully paid.

SECTION 14.2. **Records.** The Trustee shall keep complete and accurate records of all moneys received and disbursed by it under this Trust Agreement, which shall be available for inspection by the City, the Corporation and any Owner, or the agent of any of them, at any time during regular business hours with reasonable prior notice.

SECTION 14.3. **Notices.** All written notices to be given under this Trust Agreement shall be given by first class mail, postage prepaid, 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 to the Trustee shall be effective upon receipt, and notice to the other parties shall be deemed effective upon receipt and shall be deemed to have been received upon the earlier of actual receipt or five Business Days after deposit in the United States mail, or, in the case of personal delivery, upon delivery to the address set forth below:

If to the City: City of Manhattan Beach
 1400 Highland Avenue
 Manhattan Beach, California 90266
 Attention: Attention: City Manager
 Telephone: (310) 802-5053
 Telecopier: (310) 802-5001

If to the Trustee: U.S. Bank National Association
 633 W. Fifth Street, 24th Floor
 Los Angeles, CA 90071
 Attention: Corporate Trust Services
 Ref: City of Manhattan Beach
 Telephone: (213) 615-6023
 Fax: (213) 615-6199

If to the Corporation: Manhattan Beach Capital Improvements Corporation
c/o City of Manhattan Beach
1400 Highland Avenue
Manhattan Beach, California 90266
Attention: Chief Administrative Officer
Telephone: (310) 802-5053
Fax: (310) 802-5001

SECTION 14.4. **Governing Law.** This Trust Agreement shall be construed and governed in accordance with the laws of the State applicable to contracts made and performed therein.

SECTION 14.5. **Interested Parties.** Nothing in this Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Corporation, the City, the Trustee and the Owners of the Certificates, any right, remedy or claim under or by reason of this Trust Agreement or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Trust Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Corporation, the City, the Trustee and the Owners of the Certificates.

SECTION 14.6. **Binding Effect; Successors.** This Trust Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever in this Trust Agreement either the Corporation, the City or the Trustee are named or referred to, such reference shall be deemed to include the successors or assigns thereof and all the covenants and agreements in this Trust Agreement contained by or on behalf of the Corporation, 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 14.7. **Execution in Counterparts.** This Trust 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 agreement.

SECTION 14.8. **Destruction of Cancelled Certificates.** Whenever in this Trust Agreement provision is made for the surrender or cancellation by the Trustee and the delivery to the Corporation of any Certificates, the Trustee shall subject to the record-retention requirements of the Securities Exchange Act of 1934, in lieu of such cancellation and delivery, destroy such Certificates and upon request of the City Representative deliver a certificate of such destruction to the City.

SECTION 14.9. **Headings.** The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Trust Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or other subdivisions of this Trust Agreement; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision hereof.

SECTION 14.10. **Waiver of Notice.** Whenever in this Trust Agreement 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 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.

SECTION 14.11. Unclaimed Moneys. If any Certificates shall not be presented for payment when due at maturity or upon prepayment prior to maturity, or if any valid check or draft representing payment on any Certificate shall not be presented for payment, and if funds sufficient for the payment thereof shall have been deposited with the Trustee, all liability of the Corporation and the City to the Certificate Owners thereof for the payment of such Interest Component and Interest Component shall be discharged and it shall be the duty of the Trustee to hold such unclaimed funds for a period of two (2) years, without liability for interest thereon, for the benefit of the Certificate Owners, who shall during such time be restricted exclusively to such unclaimed funds for any claim on their part under this Trust Agreement or on, or with respect to said Certificate. Any unclaimed funds which remain unclaimed for a period of two (2) years shall be returned to the City. After return of such funds to the City, all liability of the Trustee therefor shall cease and the funds intended for the payment of such Certificates shall thereafter be an obligation of the City.

SECTION 14.12. Severability of Invalid Provisions. In case any one or more of the provisions contained in this Trust Agreement or in the Certificates shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision of this Trust Agreement, and this Trust Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The parties hereto hereby declare that they would have entered into this Trust Agreement and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the delivery of the Certificates pursuant to this Trust Agreement, irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Trust Agreement may be held illegal, invalid or unenforceable.

IN WITNESS WHEREOF, the parties have executed this Trust Agreement as of the date and year first above written.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION, as
Corporation

By: _____
Chief Administrative Officer

ATTEST:

By: _____
Assistant Secretary

APPROVED AS TO FORM:

By: _____
Counsel to the Corporation

CITY OF MANHATTAN BEACH, as City

By: _____
City Manager

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

EXHIBIT A

[FORM OF CERTIFICATE OF PARTICIPATION]

**CITY OF MANHATTAN BEACH
CERTIFICATE OF PARTICIPATION
(Metlox and Wastewater Refunding)
SERIES 2012**

Evidencing the Proportionate Interest of the Owner
Hereof in Lease Payments to Be Made by

CITY OF MANHATTAN BEACH

As Rental for Certain Leased Premises
Pursuant to a Lease Agreement with

MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION

Interest Rate %	Maturity Date	Dated Date	CUSIP NO.
--------------------	---------------	------------	-----------

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: _____

THIS IS TO CERTIFY THAT the registered owner named above, or registered assigns (the "Registered Owner"), of this Certificate of Participation (the "Certificate") is the owner of a proportionate and undivided interest in the right to receive certain Lease Payments and Prepayments (the "Lease Payments") to be made by the CITY OF MANHATTAN BEACH, a general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), pursuant to the Lease Agreement (the "Lease"), dated as of June 1, 2012, by and between the MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and the City, which Lease Payments and certain other rights and interests under the Lease have been assigned to U.S. Bank National Association, as trustee (the "Trustee"), having a corporate trust office at which it conducts corporate trust business in Los Angeles, California (said office being herein referred to as the "Principal Office").

The Certificates are being executed and delivered to refund the City of Manhattan Beach outstanding Certificates of Participation (Metlox Public Improvements) Series 2003, the outstanding Certificates of Participation (1996 Water and Wastewater Improvement Project) and pay certain costs of issuance.

Unless this Certificate is presented by an authorized representative of The Depository Trust Company to the Trustee or any Certificate executed and delivered is registered in the name of Cede Sr. 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 OTHER PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Lease, on the maturity date specified above, the principal amount specified above, representing a portion of the Lease Payments designated as principal (the "Principal Component") coming due on January 1 of each year (each, a "Principal Payment Date"), for the preceding twelve months, and to receive on January 1, 2012, and semiannually thereafter on January 1 and July 1 of each year (each, an "Interest Payment Date") until payment in full of said Principal Component, the Registered Owner's portion of the Lease Payments designated as interest (the "Interest Component") coming due during the six months immediately preceding each Payment Date (collectively, each Principal Payment Date and Interest Payment Date is hereinafter referred to as a "Payment Date"); provided, that such Interest Component shall be payable from the Interest Payment Date next preceding the date of execution of this Certificate (unless (i) this Certificate is executed as of an Interest Payment Date in which event interest should be payable from the date thereof; or (ii) it is executed after a Record Date and before the following Interest Payment Date, in which event the Interest Component shall be payable from such following Interest Payment Date, or (iii) this Certificate is executed on or before December 15, 2012, in which event interest shall be payable from the original dated date of the Certificates). The "Record Date" is the close of business on the fifteenth day of the month preceding a Payment Date, whether or not such day is a business day. There shall be no execution or registration of transfer of Certificates during the period established by the Trustee for selection of Certificates for prepayment or any Certificate selected for prepayment. The Interest Component is the result of the multiplication of the Principal Component by the rate per annum identified above. Interest with respect to the Certificates shall be calculated on the basis of a 360-day year, comprised of twelve months of 30 days each. Said amounts are payable by check in lawful money of the United States of America. The amount representing Principal Component payable at maturity or upon prepayment in whole is payable to the Registered Owner by check of the Trustee upon presentation and surrender of this Certificate at the Principal Office. The amounts representing the Interest Component are payable by check mailed by first class mail by the Trustee to the Registered Owner hereof at his address as it appears on the registration books of the Trustee or by wire transfer to a bank account in the United States in the case of Registered Owners owning \$1,000,000 or more in aggregate principal amount of Certificates who have furnished instructions in writing to the Trustee at least 15 days prior to the Payment Date.

The total amount of each payment of Principal Component or Interest Component made to the Registered Owner of this Certificate is comprised of interests in the Principal Component of Lease Payments made by the City with respect to Certificates maturing on the maturity date stated above, and with an Interest Component at the rate indicated above.

This Certificate has been executed and delivered by the Trustee pursuant to the terms of that certain Trust Agreement (the "Trust Agreement"), dated as of June 1, 2012, by and among the City, the Corporation and the Trustee. The City is authorized to enter into the Lease and the Trust Agreement under the Constitution and the laws of the State of California. Reference is hereby made to the Lease and the Trust Agreement (copies of which are on file at the Principal Office) for a description of the terms on which the Certificates are executed and delivered, the rights thereunder of the Registered Owners of the Certificates, the rights, duties and immunities of the Trustee and the rights and obligations of the City under the Lease, to all of the provisions of which Lease and Trust Agreement the Registered Owner of this Certificate, by acceptance hereof, assents and agrees. To the

extent and in the manner permitted by the terms of the Trust Agreement, Additional Certificates on a parity with the Certificates may be executed and delivered.

The City is obligated to pay Lease Payments from any source of legally available funds, and the City has covenanted in the Lease to make the necessary annual appropriations therefor. The obligations of the City to pay the Lease Payments do not constitute obligations 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 obligations of the City to pay Lease Payments do not constitute debts of the City, the State of California or any of its political subdivisions, and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Under certain circumstances, the City is not obligated to make its payments of Lease Payments due to the loss or destruction of all or a portion of the Leased Premises. To the extent that the City receives net proceeds of property damage and business or rental interruption insurance, such net proceeds will be applied to offset abated Lease Payments.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto with the written consent of the Registered Owners of at least 51% in aggregate principal amount of the Certificates then Outstanding, and may be amended without such consent under certain circumstances but in no event such that the interests of the Registered Owners of the Certificates are materially adversely affected. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of Interest Component, or reducing the amount of Principal Component thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Registered Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

This Certificate is transferable by the Registered Owner hereof, in person or by his duly authorized attorney, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such transfer, a new Certificate or Certificates, of authorized denomination or denominations, for the same aggregate Principal Component, maturity and interest rate, will be delivered to the transferee. This Certificate also may be exchanged for a like aggregate Principal Component of Certificates of other authorized denominations as prescribed in the Trust Agreement. The City, the Corporation and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes whether or not this Certificate shall be overdue, and the City, the Corporation and the Trustee shall not be affected by any notice to the contrary.

The Certificates are subject to prepayment as provided in the Trust Agreement.

As provided in the Trust Agreement, notice of prepayment shall be mailed by first class mail, not less than 30 nor more than 60 days before the prepayment date, to the Registered Owners of affected Certificates, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for prepayment.

If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, the Interest Component shall cease to accrue with respect hereto from and after the date fixed for prepayment.

THIS IS TO FURTHER CERTIFY that all acts, conditions and things required to have been performed by or in relation to the Trustee precedent to and in connection with the execution and delivery of this Certificate have been performed in regular and due time, form and manner as required by law, and that the Trustee is duly authorized to execute and deliver this Certificate, and that the amount of this Certificate, together with all other Certificates executed and delivered under the Trust Agreement, is not in excess of the amount of Certificates authorized to be executed and delivered thereunder.

THE LESSEE HAS CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitution and statutes of the State of California and the provisions of the Trust Agreement to exist, to have happened and to have been performed precedent to and in the execution and delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner as required by law.

The Trustee has no obligation or liability to the Registered Owners to make payments of Principal or Interest Components or Lease Payments pertaining to the Certificates except from Lease Payments paid to the Trustee and from the various funds and accounts established under the Trust Agreement. The Trust Agreement provides that the recitals of facts, covenants and agreements in the Certificate shall be taken as statements, covenants and agreements of the City, and the Trustee assumes no responsibility for the correctness of the same.

IN WITNESS WHEREOF, this Certificate has been executed and delivered by the Trustee, acting pursuant to the Trust Agreement.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

Date of Execution: _____, 2012

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

(please print or typewrite name, address and social security or other identifying number of Transferee)

the within Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints:

attorney to transfer the within Certificate on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed By:

NOTICE: Signature(s) must be guaranteed by a qualified guarantor institution.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Certificate in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

FORM OF DELIVERY COSTS FUND REQUISITION

CITY OF MANHATTAN BEACH
CERTIFICATE OF PARTICIPATION
(METLOX AND WASTEWATER REFUNDING)
SERIES 2012

REQUISITION NO. _____ (to be numbered sequentially)

1. The City of Manhattan Beach (the "City") hereby requests U.S. Bank National Association, as trustee (the "Trustee") pursuant to that certain Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement") among the City, the Trustee and the Manhattan Beach Improvement Corporation, under the terms of which the City has caused the execution and delivery of its Certificates of Participation (Metlox and Wastewater Refunding) Series 2012, to pay from the moneys in the Delivery Costs Fund established pursuant to the Trust Agreement, the amounts shown on Schedule I attached hereto to the parties indicated in Schedule I.
2. The payees, the purposes for which the costs have been incurred, and the amount of the disbursements requested are itemized on Schedule I hereto.
3. Each obligation mentioned in Schedule I hereto has been properly incurred and is a proper charge against the Delivery Costs Fund. None of the items for which payment is requested has been reimbursed previously from the Delivery Costs Fund.
4. The undersigned is authorized as a City Representative pursuant to the Trust Agreement.

DATED: _____

CITY OF MANHATTAN BEACH

By: _____

Name: _____

Title: _____

**RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:**

**STRADLING YOCCA CARLSON & RAUTH
500 Capitol Mall Suite 1120
Sacramento, CA 95814
Attn: Kevin Civale**

[Space above for Recorder's use.]

**NO DOCUMENTARY TRANSFER TAX DUE.
This Site and Facilities Lease is recorded for the
benefit of the City of Manhattan Beach and the
recording is exempt under Section 27383 of the
California Government Code.**

SITE AND FACILITIES LEASE

by and between

**CITY OF MANHATTAN BEACH,
as Lessor**

and

**MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION,
as Lessee**

Dated as of June 1, 2012

**\$ _____
City of Manhattan Beach
Certificates of Participation
(Metlox and Water/Wastewater Refunding)
Series 2012**

SITE AND FACILITIES LEASE

THIS SITE AND FACILITIES LEASE, dated as of June 1, 2012 (the "Site Lease"), by and between CITY OF MANHATTAN BEACH, a general law city duly organized and existing under the laws of the State of California (the "City"), as lessor, and MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), as lessee;

WITNESSETH:

WHEREAS, the City will initially lease to the Corporation its fee interest in (i) City Hall and the real property on which it is located and (ii) a two level public parking structure, accommodating 139 vehicles (collectively the "Leased Premises") pursuant to this Site Lease, concurrently with the execution of this Site Lease, will lease the Leased Premises back to the City pursuant to a Lease Agreement (the "Lease"), in consideration for lease payments equal to the principal and interest components coming due with respect to the Certificates of Participation (Metlox and Wastewater Refunding) Series 2012 (the "Certificates");

NOW, THEREFORE, IT IS HEREBY MUTUALLY AGREED as follows:

1. Definitions. Unless the context otherwise requires, all capitalized terms used in this Site Lease and not defined herein shall for all purposes of this Site Lease have the meaning specified therefor in the Lease or in the Trust Agreement, dated as of the date hereof (the "Trust Agreement"), by and among the Corporation, the City and U.S. Bank National Association, as trustee. (the "Trustee").

2. Site Lease. The City hereby leases to the Corporation and the Corporation hereby hires from the City, on the terms and conditions hereinafter set forth, the Leased Premises, as more fully described in Exhibit A attached hereto and made a part hereof and as may be amended from time to time in accordance herewith.

3. Term. The Term of this Site Lease shall commence on the date of execution and delivery of the Certificates, and shall remain in effect until the term of the Lease expires as provided by Section 4.2 thereof; unless such term is extended or sooner terminated as hereinafter provided.

The City shall have no right to terminate this Site Lease by reason of default by the Corporation pursuant to Section 11 hereof.

4. Rental. The City acknowledges receipt of the aggregate principal amount of the Certificates to be executed and delivered pursuant to the Trust Agreement as and for rental hereunder.

5. Purpose. The Corporation shall use the Leased Premises solely for the purpose of leasing the Leased Premises to the City pursuant to the Lease and for such purposes as may be incidental thereto; provided, that in the event of default by the City under the Lease, the Corporation and its assigns may exercise the remedies provided in the Lease.

6. Owner in Fee. The City covenants that it is the owner in fee of the Leased Premises.

7. Substitution or Release of Leased Premises. From time to time, the City may elect to substitute alternate real property or equipment for the Leased Premises or add additional real property or equipment to the Leased Premises or release property or equipment pursuant to the Lease only by providing the Trustee with a supplement to the Lease. In the event that the City effects a substitution or release of all or a portion of the Leased Premises hereunder, all or a designated portion of the Leased Premises formerly subjected to this Site Lease shall be released from the lien hereof upon receipt by the Trustee of evidence that the requirements of the Lease relating to such release or substitution have been satisfied. After any such release, the term "Leased Premises" shall be defined as the remaining portion or substitution of the Leased Premises. The City, the Corporation and the Trustee shall execute any and all appropriate legal documents, instruments and certificates to effect such release or substitution. After any such release, the term "Leased Premises" shall be deemed to include only the remaining portion of the Leased Premises.

8. Assignments and Subleases. Unless the City shall be in default under the Lease, the Corporation may not assign its rights under this Site Lease or sublet the Leased Premises, except as provided in the Lease, without the written consent of the City.

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

10. Termination. The Corporation agrees, upon the termination of this Site Lease, to quit and surrender the Leased Premises and agrees that any permanent improvements and structures existing upon the Leases Premises at the time of the termination of this Site Lease shall remain thereon and title thereto shall vest in the City. The Corporation irrevocably waives and releases the Corporation's rights under California Civil Code Sections 1932, 1933(4), 1941, 1941.1 and 1942.

11. Default. In the event the Corporation shall be in default in the performance of any obligation of 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 Corporation, 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; provided, however, that so long as any of said Certificates are outstanding and unpaid in accordance with the terms thereof, the Lease Payments assigned by the Corporation to the Trustee under the Trust Agreement shall continue to be paid to the Trustee and the City shall have no right to terminate this Site Lease as a remedy for such default.

12. Quiet Enjoyment. The Corporation at all times during the term of this Site Lease shall peaceably and quietly have, hold and enjoy all of the Leased Premises, subject to the provisions of the Lease and the Trust Agreement.

13. Waiver of Personal Liability. All liabilities under this Site Lease on the part of the Corporation are solely liabilities of the Corporation, and the City hereby releases each and every director, officer and employee of the Corporation of and from any personal or individual liability under this Site Lease. No director, officer or employee of the Corporation 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 Corporation hereunder.

14. 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 Premises (including both land and improvements).

15. Eminent Domain. In the event the whole or any part of the Leased Premises shall be taken by eminent domain proceedings, the interest of the Corporation shall be recognized and is hereby determined to be the amount of the then unpaid Certificates delivered to refinance the acquisition of the Leased Premises, including the unpaid principal and interest with respect to any then-Outstanding Certificates and the balance of the award, if any, shall be paid to the City.

16. 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.

17. Notices. All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered mail, return receipt requested, postage prepaid, and, if to the City, addressed to City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266, Attn: City Manager, or if to the Corporation, addressed to Manhattan Beach Capital Improvements Corporation, 1400 Highland Avenue, Manhattan Beach, California 90266, Attn: Chief Administrative Officer, or to such other addresses as the respective parties may from time to time designate by notice in writing.

18. Amendment. This Site Lease may not be altered, modified or amended except as permitted by Article X of the Trust Agreement.

19. 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.

20. Execution. 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.

IN WITNESS WHEREOF, the City and the Corporation 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 MANHATTAN BEACH,
as Lessor

By: _____
City Manager

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION,
as Lessee

By: _____
Chief Administrative Officer

ATTEST:

By: _____
Secretary

APPROVED AS TO FORM:

By: _____
Counsel to the Corporation

EXHIBIT A
LEASED PREMISES

**RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:**

**STRADLING YOCCA CARLSON & RAUTH
500 Capitol Mall Suite 1120
Sacramento, CA 95814
Attn: Kevin Civale**

[Space above for Recorder's use.]

**NO DOCUMENTARY TRANSFER TAX DUE.
This Lease Agreement is recorded for the benefit
of the City of Manhattan Beach and the recording
is exempt under Section 27383 of the California
Government Code.**

LEASE AGREEMENT

Dated as of June 1, 2012

by and between

**MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION,
as Lessor**

and

**CITY OF MANHATTAN BEACH,
as Lessee**

**\$ _____
City of Manhattan Beach
Certificates of Participation
(Metlox and Water/Wastewater Refunding)
Series 2012**

LEASE AGREEMENT

THIS LEASE AGREEMENT, dated as of June 1, 2012 (the "Lease"), by and between MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, as lessor (the "Lessor"), and CITY OF MANHATTAN BEACH, a general law city duly organized and existing under the laws of the State of California, as lessee (the "Lessee");

WITNESSETH:

WHEREAS, the Lessee will lease to the Lessor its fee interest in (i) City Hall and the real property on which it is located and (ii) a two level public parking structure, accommodating 139 vehicles (collectively, the "Leased Premises") pursuant to a Site and Facilities Lease, dated as of June 1, 2012 (the "Site Lease"), by and between the Lessor and the Lessee, and the Lessor, concurrently with the execution of the Site Lease, will lease the Leased Premises back to the Lessee pursuant to this Lease, in consideration for lease payments equal to the principal and interest components coming due with respect to the City of Manhattan Beach Certificates of Participation (Metlox and Wastewater Refunding) Series 2012 (the "Certificates"); and

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

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1 **Definitions and Rules of Construction.** Unless the context otherwise requires, the capitalized terms used herein but not defined in this Lease shall, for all purposes of this Lease, have the meanings specified in the Trust Agreement, dated as of the date hereof, by and among U.S. Bank National Association, as trustee thereunder, the Lessor and the Lessee (the "Trust Agreement"), together with any amendments thereof or supplements thereto permitted to be made thereunder; and the additional terms defined in this Section shall, for all purposes of this Lease, have the meanings herein specified. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa. The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this Lease, refer to this Lease as a whole.

"Leased Premises" means, from time to time, that certain real property comprising those parcels described on Exhibit B to this Lease.

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

Exhibit A: Schedule of Lease Payments.

Exhibit B: Description of Leased Premises.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1 Representations, Covenants and Warranties of Lessee. The Lessee represents, covenants and warrants to the Lessor as follows:

(a) Due Organization and Existence. The Lessee is a general law city, duly organized and validly operating as such under the Constitution and laws of the State of California.

(b) Authorization, Enforceability. The Constitution and laws of the State authorize the Lessee to enter into this Lease, the Site Lease, the Continuing Disclosure Agreement and the Trust Agreement (collectively, the "Agreements") and to enter into the transactions contemplated by and to carry out its obligations under all of the Agreements, and the Lessee has, concurrently with the execution hereof, duly authorized and executed all of the Agreements.

(c) No Defaults. Neither the execution and delivery of the Agreements, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrances whatsoever upon any of the property or assets of the Lessee.

(d) Execution and Delivery. The Lessee has taken all actions required to authorize and execute this Lease in accordance with the Constitution and laws of the State and all acts, conditions and things required by the Constitution and statutes of the State and the provisions of the Trust Agreement to exist, to have happened and to have been performed precedent to and in the execution and delivery of the Certificates, do exist, have happened and have been performed in due time, form and manner as required by law.

(e) No Material Encumbrances. No encumbrances on the Leased Premises will impair the pledge and assignment under Section 5.1 of the Trust Agreement.

(f) Essentiality of the Leased Premises. The portion of the Leased Premises constituting City Hall is essential to the operations of the Lessee.

Section 2.2 Representations, Covenants and Warranties of Lessor. The Lessor represents, covenants and warrants to the Lessee as follows:

(a) Due Organization and Existence; Enforceability. The Lessor is a nonprofit public benefit corporation duly organized, existing and in good standing under and by virtue of the laws of the State, and has the power to enter into this Lease, the Site Lease, the Assignment Agreement and the Trust Agreement (collectively, the "Lessor Documents"); is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of all of the aforesaid Lessor Documents.

(b) No Encumbrances. The Lessor will not pledge or assign the Lease Payments or other amounts derived from the lease of the Leased Premises and from its other rights under this

Lease except as provided in the Assignment Agreement, and except that the Lessor may create, assume or suffer to exist Permitted Encumbrances provided under the terms of the Lessor Documents.

(c) No Violations. Neither the execution and delivery of the Lessor Documents, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any agreement or instrument to which the Lessor is now a party or by which the Lessor is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Lessor, or upon the Leased Premises.

(d) No Assignment. Except as provided herein, in the Assignment Agreement and in the Trust Agreement, the Lessor will not assign this Lease, its right to receive Lease Payments from the Lessee, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this Section; provided, however, that Lessor shall have the absolute right to assign this Lease and its rights and obligations hereunder to any other such person, firm or corporation if the Lessor first obtains an opinion of Special Counsel to the effect that such assignment shall not cause the Interest Component to be subject to federal income taxation.

Section 2.3 Compliance with Law, Regulations, Etc.

The Lessee has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Leased Premises or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Leased Premises (collectively, "Laws and Regulations").

ARTICLE III

DEPOSIT OF MONEYS

Section 3.1 Deposit of Moneys. In order to induce the Lessee to lease the Leased Premises from the Lessor and to assure the Lessee that the moneys needed to refinance the 1996 Certificates and 2003 Certificates will be available for such purpose without delay, the Lessor shall, on the Closing Date, cause moneys to be deposited with the Trustee as provided in Section 2.7 of the Trust Agreement. All moneys held under the Trust Agreement shall be invested in accordance with the restrictions set forth in Section 8.2 thereof.

The Lessee has leased the Leased Premises to the Lessor in consideration in part, for the Lessor's cooperation in effecting the execution and delivery of the Certificates.

Amounts estimated to be required to pay costs for any project to be financed with proceeds of any Series of Additional Certificates shall be deposited in the Improvement Fund, or accounts therein, as set forth in the Supplemental Trust Agreement for such Series and estimated to be

required to pay Delivery Costs of any Series of Additional Certificates shall be deposited into the Delivery Costs Fund, or account therein, as set forth in the Supplemental Trust Agreement for such Series.

Section 3.2 Substitution of Alternate Leased Premises and Release of Leased Premises.

(a) The Lessee shall have the right to substitute alternate real property or improvements for the Leased Premises or release or add additional real property, improvements or equipment from or to the Leased Premises described in Exhibit B. All costs and expenses incurred in connection with any such substitution or addition shall be borne by the Lessee. Notwithstanding any substitution or addition pursuant to this Section, there shall be no reduction in or abatement of the Lease Payments due from the Lessee hereunder as a result of such substitution.

If the Lessee substitutes any alternate real property or improvement for the Leased Premises or adds additional components to the Leased Premises, written notice of such substitution or addition shall be delivered by the Lessee to all rating agencies, if any, then rating the Certificates. The Lessee shall not substitute alternate real property or improvements for the Leased Premises or add an additional component to the Leased Premises, without first obtaining (a) an opinion of Special Counsel to the effect that such substitution or addition shall not, in and of itself, impair the exclusion from gross income of interest payable with respect to the Certificates, and (b); if the Lessee substitutes alternate real property, a CLTA title insurance policy respecting the ownership and condition of such substituted real property.

In the event that the Lessee effects a substitution or release of all or a portion of the Leased Premises hereunder, all or a designated portion of the Leased Premises formerly subjected to this Lease shall be released from the lien hereof upon receipt by the Trustee of: (a) the written request of the Lessee to that effect; (b) written evidence to the effect that the remaining or substituted Leased Premises have a fair rental value no less than the Principal Component of Certificates then remaining Outstanding, as evidenced by a written MAI appraisal; (c) in the event that the substitute Leased Premises comprise improvements, that such improvements have a useful life at least equal to the remaining period during which the Certificates are Outstanding; (d) evidence by way of appropriate title insurance or a bring-down of the title insurance described in Section 5.5(b) that there are no prior liens or encumbrances on the property proposed to be substituted, which liens or encumbrances would have an adverse effect on the use and occupancy of the Leased Premises by the City; and (e) a further opinion of Special Counsel to the effect that such release will have no adverse effect upon the tax-exempt status of interest with respect to the Certificates.

The Lessee, the Lessor and the Trustee shall execute any and all appropriate legal documents, instruments and certificates to effect any release or substitution authorized pursuant to this section. After any such release or substitution, the term "Leased Premises" shall be deemed to include only the remaining or substituted portion of the Leased Premises. In addition, upon the payment in full, prepayment or defeasance of the Certificates, the Leased Premises shall also be released as described in this Section.

ARTICLE IV

AGREEMENT TO LEASE; TERMINATION OF LEASE; LEASE PAYMENTS; TITLE TO THE LEASED PREMISES

Section 4.1 Lease. The Lessor hereby leases the Leased Premises to the Lessee, and the Lessee hereby leases the Leased Premises from the Lessor, upon the terms and conditions set forth in this Lease.

Section 4.2 Term of Lease. The "Term" of this Lease shall mean the duration of this Lease for the Leased Premises, which shall commence on the Closing Date, and shall continue until payment in full of all Lease Payments, or through the date that is ten years after the final maturity date set forth on Exhibit A hereto, unless earlier terminated in accordance with the following paragraph. The Lessee hereby represents, warrants and covenants that the useful life of the Leased Premises is not shorter than the term of the Certificates.

The Term of this Lease will end upon the earliest of any of the following events:

- (a) a default by the Lessee and the Lessor's subsequent election to terminate this Lease under Section 9.2(b);
- (b) the payment by the Lessee of all Lease Payments required under Section 4.3 and any Additional Payments required under Section 4.6 hereof;
- (c) the deposit of moneys or Federal Securities with the Trustee in amounts sufficient to pay all of the Lease Payments and Additional Payments as the same shall become due, as provided by Section 10.1;
- (d) upon the exercise by the Lessee of its option to purchase the Leased Premises as provided in Section 4.3(b); or
- (e) ten (10) years beyond the final maturity of the Certificates.

In order for the Lessee to terminate this Lease upon prepayment in full of Lease Payments pursuant to Section 10.1 hereof, the defeasance provisions set forth in Section 14.1 of the Trust Agreement shall have been complied with. In addition, the Lessee shall not have the right to terminate this Lease by reason of default by the Lessor.

Section 4.3 Lease Payments.

- (a) Obligation to Pay.
 - (1) Time and Amount. Subject to the provisions of Article VI and Article X, the Lessee agrees to pay to the Lessor, its successors and assigns, as rental for the use and possession of the Leased Premises, the Lease Payments in the amounts specified in Exhibit A, to be due and payable on the fifteenth (15th) day of each June and December or, if any such day is not a Business Day, then the next succeeding Business Day (each, a "Lease Payment Date"), which are intended to be sufficient in both time and amount to pay when due the portion of the Principal Component and Interest Component evidenced and represented by the Certificates and due on the next Payment Date. The Lease Payments shall be treated as a credit against the payments due to be distributed to the Owners on such Payment Date.
 - (2) Source of Payments; Budget and Appropriations. Lease Payments shall be paid from any source of legally available funds of the Lessee, and subject to Article VI, the Lessee covenants to take such action as may be necessary to include all Lease Payments and

Additional Payments due hereunder in its annual general fund budgets and to make the necessary appropriations for all such Lease Payments and Additional Payments, which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee hereunder.

(3) Credits. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts required for payment of Principal Component or Interest Component due with respect to any Certificates not yet presented for payment) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid. At such time as the moneys on hand in the Lease Payment Fund are equal, to all Lease Payments remaining unpaid hereunder, such moneys shall be applied by the Trustee, pursuant to Section 14.1 of the Trust Agreement, to such Lease Payments on behalf of the Lessee and the Lessee shall not be required to make any further Lease Payments hereunder. A Lease Payment payable on a Lease Payment Date is consideration for the use and possession of the Leased Premises from the next preceding Lease Payment Date.

(4) No Withholding. Notwithstanding any dispute between the Lessor and the Lessee, including any dispute as to the failure of any portion of the Leased Premises to perform the task for which it is leased, the Lessee shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

(b) Terms and Effect of Prepayment and Purchase of the Leased Premises.

(1) Terms for Optional Prepayment. The Lessee may prepay Lease Payments at the times, in the amounts and subject to the premiums provided for in Section 4.4 of the Trust Agreement by providing notice to the Trustee no later than the sixtieth (60th) day prior to the date scheduled for prepayment and depositing in the Prepayment Fund an amount sufficient to effect prepayment of the designated Principal Component of Lease Payments.

(2) In Whole; Exercise of Purchase Option. In the event that the Lessee exercises its option to prepay all remaining Lease Payments and Additional Payments either by irrevocably making a security deposit with the Trustee as provided in Section 10.1 or by irrevocably depositing Net Insurance Proceeds as provided in Section 10.2, the Lessee's obligations under this Lease shall thereupon cease and terminate, including but not limited to the Lessee's obligations to continue to pay Lease Payments under this Section.

(3) In Part. In the event the Lessee prepays less than all of the remaining Principal Components of the Lease Payments pursuant to this Section or from Net Insurance Proceeds pursuant to Section 10.2, the amount of such prepayment shall be applied to reduce the Principal Components of the remaining Lease Payments as directed in writing by the Lessee, corresponding to the resulting prepayment of principal with respect to the Certificates. Furthermore, delinquent Lease Payments shall be made to the Trustee for application in accordance with the Trust Agreement.

(c) Rate of Overdue Payments. In the event the Lessee should fail to make any of the payments required in this Section, the payments in default shall continue as an obligation of

the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the net interest rate paid with respect to the Certificates. Furthermore, delinquent Lease Payments shall be made to the Trustee for application in accordance with the Trust Agreement.

(d) Fair Rental Value. The Lease Payments shall be paid by the Lessee in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Leased Premises during each such period for which said payments have been paid. The parties hereto have agreed and determined that each of such annual payments specified in Exhibit A are less than the annual fair rental value of the Leased Premises. In making such determination, consideration has been given to the costs of acquisition and construction of the Leased Premises, other obligations of the parties under this Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Leased Premises and the benefits therefrom which will accrue to the Lessee and the general public.

(e) Budgets and Appropriation. The Lessee covenants to take such action as may be necessary to include (from all lawfully available moneys of the Lessee) all Lease Payments and Additional Payments due hereunder in its annual budgets and to make the necessary annual appropriations for all such Lease Payments and Additional Payments.

(f) Assignment. The Lessee understands and agrees that, pursuant to the Assignment Agreement, the Lessor has assigned its right to receive and collect Lease Payments, Additional Payments and prepayments thereof to the Trustee in trust for the benefit of the Owners of the Certificates, and the Lessee assents to such assignment. The Lessor hereby directs the Lessee, and the Lessee hereby agrees to pay to the Trustee at the Trustee's Principal Office or to the Trustee at such other place as the Trustee shall direct in writing, all payments payable by the Lessee pursuant to this Section, Section 4.6 and Article X.

(g) Abatement. Lease Payments shall be subject to abatement as provided in Section 6.1.

Section 4.4 Quiet Enjoyment. During the term of this Lease, the Lessor shall provide the Lessee with quiet use and enjoyment of the Leased Premises, and the Lessee shall during such term peaceably and quietly have and hold and enjoy the Leased Premises, without suit, trouble or hindrance from the Lessor, or any person or entity claiming under or through the Lessor except as expressly set forth in this Lease. The Lessor shall, at the request and expense of the Lessee, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor shall have the right to inspect the Leased Premises as provided in Section 7.3.

Section 4.5 Title to Leased Premises.

(a) Lessor Holds Title During Term. During the term of this Lease, the Lessor shall hold leasehold title to the Leased Premises and any and all additions which comprise repairs, replacements or modifications thereto. The Lessee shall take any and all actions reasonably required, including but not limited to executing and filing any and all documents, reasonably required to maintain and evidence the Lessor's leasehold title to and interest in the Leased Premises at all times during the Term of this Lease.

(b) Title Transferred to Lessee at End of Term. Upon expiration of the Term, unless such expiration occurs pursuant to a default by the Lessee and the Lessor has elected to terminate this Lease under Section 9.2(b) hereof, all right, title and interest of the Lessor in and to all of the Leased Premises shall be transferred to and vest in the Lessee, without the necessity of any additional document of transfer, except that with respect to the portion of the Leased Premises constituting real property, the Lessor shall authorize, execute and deliver to the Lessee any documents required to transfer title to such real property to the Lessee.

Section 4.6 Additional Payments. Throughout the Term of this Lease, Lessee agrees to pay, as Additional Payments, such amounts as shall be required for the payment of all administrative costs of the Lessor relating to the Leased Premises or the execution, sale and delivery of the Certificates, including, without limitation, the Lessee's obligation to pay all expenses, compensation and indemnification of the Trustee payable by the Lessee under the Trust Agreement, taxes of any sort whatsoever payable by the Lessor as a result of its ownership of the Leased Premises or its undertaking of the transactions contemplated herein or in the Trust Agreement as required by Section 5.1 hereof, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement or to defend the Lessor and its directors, officers and employees in connection therewith.

Additional Payments due under this Section shall be paid by the Lessee directly to the person or persons to whom such amounts shall be payable. The Lessee shall pay all such amounts when due or within ten days after notice in writing from the Trustee to the Lessee, stating the amount of Additional Payments then due and payable and the purpose thereof.

Section 4.7 Additional Certificates. This Lease may be amended to provide for the execution and delivery of Additional Certificates in accordance with the provisions set forth in Section 2.13 of the Trust Agreement, without the approval of the Owners, provided that the following shall have occurred:

(a) This Lease and the Site Lease shall have been amended, to the extent necessary, so as to increase the amount of the Lease Payments due from the Lessee hereunder in order to provide for the payment of the interest component and the principal component of the Additional Certificates; provided, however, that such increased Lease Payments may not exceed the fair rental value of the Leased Premises at the time of such amendment.

(b) The Lessee shall not then be in default under the Trust Agreement, this Lease or any supplement or amendment thereto then in effect; and

(c) The trustee for the Additional Certificates shall be the Trustee.

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 Premises, all repair and maintenance of the Leased Premises shall be the responsibility of the Lessee, and the Lessee shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased

Premises resulting from ordinary wear and tear or want of care on the part of the Lessee or any sublessee thereof. The Lessee shall also pay any taxes or assessments due with respect to the Leased Premises. In exchange for the Lease Payments herein provided, the Lessor agrees to provide only the Leased Premises, as hereinbefore more specifically set forth.

Section 5.2 Modification of the Leased Premises.

(a) The Lessee shall, at its own expense, have the right to make additions, modifications, and improvements to the Leased Premises if such improvements are necessary or beneficial for the use of the Leased Premises. All such additions, modifications and improvements shall thereafter comprise part of the Leased Premises and be subject to the provisions of this Lease. Such additions, modifications and improvements shall not in any way damage the Leased Premises or cause them to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the tax-exempt status of the Interest Components of the Lease Payments; and the Leased Premises, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value in the aggregate which is not less than the value of the Leased Premises immediately prior to the making of such additions, modifications and improvements.

(b) The Lessee will not permit any mechanic's or other lien to be established or remain against the Leased Premises for labor or materials furnished in connection with any additions, modifications, remodeling or construction made by the Lessee pursuant to this Section, except Permitted Encumbrances; provided, that if any such lien is established and the Lessee shall first notify or cause to be notified the Lessor of the Lessee's intention to do so, the Lessee may in good faith contest any lien filed or established against the Leased Premises, and in such event may permit the liens so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Lessor with full security against any loss or forfeiture which might arise from such nonpayment with respect to the Leased Premises, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

Section 5.3 Commercial General Liability Insurance, and Workers' Compensation Insurance.

(a) Commercial General Liability insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of this Lease, "Commercial General Liability" insurance (or its equivalent) in protection of the Lessee and the Lessor, their respective officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Lessee, and may be maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the Lessee.

The amount of said coverage shall be no less than \$5,000,000 per occurrence. If an aggregate applies, it shall not be less than twice the occurrence limit. Deductibles, if any, shall be in such amounts as may reasonably be obtained by a city of comparable size to the Lessee, in Los Angeles County, insuring risks comparable to those that are the subject of said insurance coverage, but in no circumstance be in excess of amounts that would be reasonable in the exercise of prudence and good judgment by the Lessee.

The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid, including, where appropriate, the application of Net Insurance Proceeds with respect to the prepayment of the Lease Payments as provided in Section 6.2 hereof.

(b) Workers' Compensation. The Lessee shall also maintain workers' compensation insurance as required under the laws of the State of California.

Section 5.4 All Risk Property Insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of this Lease, "All Risk" property insurance, in an aggregate amount at least equal to the aggregate Principal Component of Certificates at that time Outstanding; except that such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee. The Net Insurance Proceeds of each policy or coverage shall be applied as provided in Section 6.2.

Each policy of insurance required by this Section shall provide that all proceeds therefrom with respect to a claim arising by reason of the care and possession of the Leased Premises shall be payable to the Trustee for the benefit of the Owners, to be applied as provided in Section 6.2 hereof.

Section 5.5 Rental Interruption and Title Insurance.

(a) The Lessee shall maintain or cause to be maintained rental interruption insurance in an amount not less than the maximum remaining scheduled Lease Payments in any consecutive two-year period, to insure against loss of use of the Leased Premises caused by perils covered by the insurance required in Section 5.4. Such insurance may be subject to a deductible clause of not to exceed \$10,000 and may be maintained as part of or in conjunction with any other rental interruption insurance carried by the Lessee but may not be maintained in the form of self-insurance. The Net Insurance Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited toward the payment of the Lease Payments in the order in which such Lease Payments come due and payable. The Lessee may not self-insure for rental interruption insurance.

(b) The Lessee shall, on or before the Closing Date, obtain a CLTA title insurance policy, insuring the fee simple interest of the City and the leasehold interest established under this Lease, in an amount no less than the aggregate Principal Component of the Certificates.

Section 5.6 General Insurance Provisions.

(a) Form of Policies. Each policy of insurance required by Sections 5.3 and 5.4 hereof shall be obtained from an insurance provider licensed to do business in the State and rated "A" or better by A.M. Best & Company, unless self-insured or maintained through a joint exercise of powers authority created for such purpose. All policies shall provide that the Trustee shall be given 30 days' written notice of cancellation thereof. All policies shall have the Lessee, the Lessor, and the Trustee as insureds and the Trustee as loss payee. The Trustee shall not be responsible for the sufficiency of any insurance herein required, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. All insurance coverage required pursuant to Sections 5.3 and 5.4 may be

maintained through a joint exercise of powers authority created for such purpose and include self-insurance by the Lessee. Deductibles or self-insured retentions, if any, shall be in such amounts as may reasonably be obtained by a city of comparable size to the Lessee, in Los Angeles County, insuring risks comparable to those that are the subject of said insurance coverage.

(b) Payment of Premiums. The Lessee shall pay or cause to be paid when due the premiums for all insurance coverage required by this Lease.

(c) Evidence of Insurance. The Lessee will deliver to the Lessor and the Trustee by December 1 of each year a certificate to the effect that the requirements of Sections 5.3, 5.4, 5.5, and 5.6, as applicable, have been satisfied. Upon request, the Lessee shall provide a schedule, in such detail as the Lessor or Trustee may reasonably request, setting forth any insurance policies then in force described in Sections 5.3 through 5.5 of this Lease, listing the names of the insurers which have issued the policies, the policy limits thereof and the hazards and risks covered thereby.

(d) Self-Insurance Requirements. If the Lessee chooses to self-insure for any of the risks described in Section 5.3 and/or 5.4 for which, subject to the provisions of Section 5.6, self-insurance is permitted, it must on at least an annual basis by December 1 of each year provide a certificate to the Trustee and the Lessor to the effect that the Lessee's general insurance reserves are adequate to provide the required amount of coverage. The Trustee may conclusively rely upon such certificate.

Section 5.7 Installation of Lessee's Equipment. The Lessee 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 Premises. All such items shall remain the sole property of the Lessee, in which neither the Lessor nor the Trustee shall have any interest, and may be modified or removed by the Lessee at any time provided that the Lessee shall repair and restore any and all damage to the Leased Premises resulting from the installation, modification or removal of any such items. Nothing in this Lease shall prevent the Lessee from purchasing or leasing items to be installed pursuant to this Section 5.7 under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Premises.

Section 5.8 Liens. Except as provided in this Article (including, without limitation, Section 5.2(b)), the Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Leased Premises, or any portion thereof, other than the respective rights of the Lessor and the Lessee as provided herein and in the Trust Agreement and Permitted Encumbrances. Except as expressly provided in this Article, the Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The Lessee shall reimburse the Lessor for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Section 5.9 Use of the Leased Premises. The Lessee represents and warrants that it has an immediate need for, and expects to make immediate use of the Leased Premises, which need is not temporary or expected to diminish in the foreseeable future.

Section 5.10 Cooperation. The Lessor shall cooperate fully with the Lessee at the expense of the Lessee in filing any proof of loss with respect to any insurance policy maintained pursuant to this Article.

Section 5.11 Tax Covenants. In order to maintain the exclusion from gross income for federal income tax purposes of the Interest Component of each Lease Payment due under this Lease, the Lessee covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986, as amended. In furtherance of this covenant, the Lessee agrees to comply with the Tax Certificate, which is incorporated herein by this reference, as such Tax Certificate may be amended from time to time.

ARTICLE VI

DAMAGE AND DESTRUCTION; USE OF NET INSURANCE PROCEEDS

Section 6.1 Abatement of Lease Payments in Event of Loss of Use. A proportional amount of the Lease Payments shall be abated during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Premises by the Lessee. The amount of such abatement shall be determined by the Lessee such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Leased Premises not condemned, damaged or destroyed. Such abatement shall commence on the date of condemnation, damage or destruction and shall end with the substantial completion of the replacement or work of repair. Except as provided herein, in the event of any such condemnation, damage or destruction, this Lease shall nonetheless continue in full force and effect and the Lessee waives any right to terminate this Lease by virtue of any such condemnation, damage or destruction.

It is the intention of the parties that, in the event of abatement of Lease Payments hereunder, rental interruption insurance required by Section 5.5 hereof shall provide funds sufficient for the payment of such Lease Payments during the period required for any repair of the Leased Premises.

Section 6.2 Application of Net Insurance Proceeds.

(a) **Deposit in Net Insurance Proceeds Fund.** Net Insurance Proceeds shall be deposited in the Net Insurance Proceeds Fund by the Trustee promptly upon receipt thereof and, if the Lessee Representative notifies the Trustee in writing within ninety (90) days after the date such Net Insurance Proceeds are delivered to the Trustee of the Lessee's determination that the replacement or repair of the affected portion of the Leased Premises is not economically feasible or in the best interests of the Lessee, then such Net Insurance Proceeds shall be promptly transferred by the Trustee to the Prepayment Fund and applied as provided in Section 10.2 unless, as provided in Section 4.2 of the Trust Agreement, such Net Insurance Proceeds together with funds then on hand in the Lease Payment Fund are insufficient to prepay all of that portion of the Certificates representing interests in the Lease Payments for the Leased Premises or relevant portion thereof, in which event such Net Insurance Proceeds will be deposited in a separate account by the Trustee and invested and used in accordance with Section 4.2 of the Trust Agreement; otherwise, such Net Insurance Proceeds shall be applied as provided in Section 6.2(c) hereof.

(b) **Replacement or Repair of the Leased Premises.** Notwithstanding the foregoing, however, the Lessee may exercise its option to replace or repair the affected portion of the

Leased Premises only if (i) the Net Insurance Proceeds available for such purpose, together with any other funds supplied by the Lessee for such purpose, are sufficient therefor, and (ii) in the event that damage or destruction results in an abatement of Lease Payments, the Lessee Representative certifies and covenants to the Lessor that, unless the Lessee shall have certified with respect to an abatement as set forth in Section 6.1 hereof, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds or other lawfully available funds will be available to pay in full all Lease Payments coming due during such period as described in Section 5.5 hereof.

(c) **Requisition.** All Net Insurance Proceeds deposited in the Net Insurance Proceeds Fund and not so transferred to the Prepayment Fund as provided in Section 6.2(a) shall be applied to the prompt replacement or repair of the affected portion of the Leased Premises by the Lessee, upon receipt of a requisition signed by the Lessee Representative (a "Requisition") stating with respect to each payment to be made (i) the Requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Insurance Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee may conclusively rely on the Requisition as to the amount of such obligation. Any balance of the Net Insurance Proceeds remaining after such replacement or repair has been completed shall, after payment of amounts due the Trustee, be paid to the Lessee upon written request of the Lessee.

Section 6.3 Laws and Ordinances. The Lessee agrees to observe and comply with all rules, regulations and laws applicable to the Lessee with respect to the Leased Premises and the operation thereof. The cost, if any, of such observance and compliance shall be borne by the Lessee, and the Lessor shall not be liable therefor. The Lessee agrees further to place, keep, use, maintain and operate the Leased Premises in such a manner and condition as will provide for the safety of its agents, employees, invitees, subtenants, licensees and the public. Lessee irrevocably waives and releases Lessee's rights under California Civil Code Sections 1932, 1933(4), 1941, 1941.1 and 1942.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS

Section 7.1 Disclaimer of Warranties. THE LESSOR AND ITS ASSIGNS MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE LESSEE OF THE LEASED PREMISES OR ANY PART THEREOF. THE LESSEE ACKNOWLEDGES THAT THE LESSOR IS NOT A MANUFACTURER OF ANY COMPONENTS OF THE LEASED PREMISES OR A DEALER THEREIN, AND THE LESSEE IS LEASING THE LEASED PREMISES "AS-IS." In no event shall the Lessor or its assigns be liable for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease or the Trust Agreement for the existence, furnishing, functioning or Lessee's use and possession of the Leased Premises.

Section 7.2 Lessee's Right to Enforce Warranties. The Lessor hereby irrevocably appoints the Lessee as its agent and attorney-in-fact during the term of this Lease, so long as the Lessee shall not be in default hereunder, to assert from time to time whatever claims and rights,

including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Project or the Leased Premises which the Lessor may have against any vendor or contractor. The Lessee's sole remedy for the breach of any such warranty, indemnification or representation shall be against the vendor or contractor with respect thereto, and not against the Lessor, nor shall such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to this Lease, including the right to receive full and timely Lease Payments and all other payments due hereunder. The Lessee shall be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor shall, upon the Lessee's request and at the Lessee's expense, do all things and take all such actions as the Lessee may request in connection with the assertion of any such claims and rights.

Section 7.3 Access to the Leased Premises. The Lessee agrees that the Lessor, any Lessor Representative and the Lessor's successors or assigns, shall have the right (but no duty) at all reasonable times to enter upon and to examine and inspect the Leased Premises. The Lessee further agrees that the Lessor, any Lessor Representative, and the Lessor's successors or assigns shall have such rights of access to the Leased Premises as may be reasonably necessary to cause the proper maintenance of the Leased Premises in the event of failure by the Lessee to perform its obligations hereunder; provided, however, that the Lessor's assigns shall have no duty to cause such proper maintenance.

Section 7.4 Release and Indemnification Covenants. To the extent permitted by law, the Lessee shall and hereby agrees to indemnify and save the Lessor and its successors, assigns, agents, officers, employees and servants harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Leased Premises by the Lessee, (ii) any breach or default on the part of the Lessee in the performance of any of its obligations under this Lease, (iii) any act or negligence of the Lessee or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Premises, or (iv) any act or negligence of any assignee or sublessee of the Lessee with respect to the Leased Premises. No indemnification is made under this Section or elsewhere in this Lease for claims, losses or damages, including legal fees and expenses arising Out of the willful misconduct or negligence, under this Lease by the Lessor, its directors, officers, agents, employees, successors or assigns.

ARTICLE VIII

ASSIGNMENT, SUBLEASING AND AMENDMENT

Section 8.1 Assignment by the Lessor. Certain of the Lessor's rights under this Lease, including the right to receive and enforce payment of the Lease Payments to be made by the Lessee under this Lease, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the Lessee hereby consents. Except as provided herein and in the Trust Agreement, the Lessor will not assign this Lease, its right to receive Lease Payments from the Lessee, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in Section 2.2.

Section 8.2 Assignment and Subleasing by the Lessee. This Lease may be assigned by the Lessee so long as such assignment does not adversely affect the exclusion from gross income of the Interest Component of the Lease Payments. The Lessee may sublease the Leased Premises, with the consent of the Lessor, subject to all of the following conditions:

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

(b) The Lessee shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease;

(c) No sublease by the Lessee shall cause the Leased Premises to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and

(d) No sublease shall cause the Interest Component of the Lease Payments due with respect to the Leased Premises to become included within gross income for federal income tax purposes or subject to State of California personal income taxes.

Section 8.3 **Amendment.** The Lessee will not alter, modify or cancel or agree or consent to alter, modify or cancel this Lease except as permitted by Article X of the Trust Agreement.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

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

(a) Failure by the Lessee to pay any Lease Payment required to be paid hereunder by not later than ten (10) Business Days before the Payment Date immediately following each corresponding Lease Payment Date.

(b) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed herein or otherwise with respect hereto or in the Trust Agreement, other than as referred to in clause (i) of this Section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Lessor, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, but is capable of being corrected within 60 days, the Lessor, the Trustee or such Owners, as the case may be, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected; and

(c) The filing of a voluntary petition in bankruptcy by the Lessee, or the failure by the Lessee promptly to institute judicial proceedings to lift any execution, garnishment or attachment of such consequence as will materially impair its ability to carry on its operations, or the adjudication of the Lessee as insolvent or as a bankrupt, or any assignment by the Lessee for the benefit of its creditors, or the application for the appointment of any receiver, trustee, custodian or similar officer by the Lessee or the entry by the Lessee into an agreement of composition with its creditors.

Section 9.2 Remedies on Default. Whenever any event of default referred to in Section 9.1 shall have happened and be continuing, it shall be lawful for the Lessor to exercise any and all remedies available pursuant to law or in equity, or granted pursuant to this Lease; provided, however, that notwithstanding anything herein or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an event of default hereunder, the Lessee will surrender possession of the Leased Premises to the Lessor, if requested to do so by the Lessor, or by the Trustee or the Owners in accordance with the provisions of the Trust Agreement.

(a) No Termination: Repossession and Re-Lease on Behalf of Lessee. In the event the Lessor does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the Lessor with the consent of the Lessee, which consent is irrevocably given, may repossess the Leased Premises and re-let them for the account of the Lessee, in which event the Lessee's obligation will continue to accrue from year to year in accordance with the Lease and the Lessee will continue to receive the value of the use of the Leased Premises from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Lessee shall remain the same as prior to such default to pay Lease Payments whether the Lessor re-enters or not. The Lessee agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained herein and shall reimburse the Lessor for any deficiency arising out of the re-letting of the Leased Premises, or, in the event the Lessor is unable to re-let the Leased Premises, 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 provided above for the payment of Lease Payments hereunder, notwithstanding such repossession by the Lessor or any suit, brought by the Lessor for the purpose of effecting such repossession of the Leased Premises or the exercise of any other remedy by the Lessor.

The Lessee hereby irrevocably appoints the Lessor as the agent and attorney-in-fact of the Lessee to repossess and re-let the Leased Premises in the event of default by the Lessee in the performance of any covenants contained herein to be performed by the Lessee and to remove (any removal to be done with reasonable prudence) all personal property connected to or made a part of the Leased Premises, to place such property in storage or other suitable place in the County of Los Angeles, for the account of and at the expense of the Lessee, and the Lessee hereby exempts and agrees to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-letting of the Leased Premises. The Lessee hereby waives any and all claims for damages caused or which may be caused by the Lessor in repossessing the Leased Premises as provided herein and all claims for damages that may result from the destruction of or the injury to the Leased Premises and all claims for damage to or loss of any property belonging to the Lessee that may be in or upon the Leased Premises.

The Lessee agrees that the terms of this Lease constitute full and sufficient notice of the right of the Lessor to re-let the Leased Premises in the event of such repossession without effecting a surrender of this Lease, and further agrees that no acts of the Lessor in effecting such re-letting shall constitute a surrender or termination of this Lease irrespective of the term for which such re-letting is made or the terms and conditions of such re-letting or otherwise, but that, on the contrary, in the event of such default by the Lessee the right to terminate this Lease shall vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below. The Lessee further waives the right to any rental obtained by the Lessor in excess of the Lease Payments and hereby conveys and releases such excess to the Lessor as compensation to the Lessor for its services in re-

letting the Leased Premises. In the event that the liability of the Lessee under this subsection is held to constitute indebtedness or liability in any year exceeding the income and revenue provided for such year, the Lessor, or the Trustee or the Owners as assignees of the Lessor, shall not exercise the remedies provided in this subsection.

(b) **Termination: Repossession and Re-Lease.** In the event of the termination of this Lease by the Lessor at its option and in the manner hereinafter provided on account of default by the Lessee (and notwithstanding any repossession of the Leased Premises by the Lessor in any manner whatsoever or the sale or re-letting of the Leased Premises), the Lessee nevertheless agrees to pay to the Lessor all costs, losses or damages, but not Lease Payments, howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments. Any proceeds of the re-letting or other disposition of the Leased Premises or the sale of the improvements located on the Leased Premises by the Lessor shall, after payment of the fees and expenses of the Trustee and other Additional Payments, be deposited into the Lease Payment Fund and be applied in accordance with the provisions of Section 5.3 of the Trust Agreement. Any surplus received by the Lessor from such sale or re-letting shall be the absolute property of the Lessor and the Lessee shall have no right thereto, nor shall the Lessee be entitled to any credit in the event of a surplus in the rentals received by the Lessor for the Leased Premises. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Leased Premises shall by itself operate to terminate this Lease, and no termination of this Lease on account of default by the Lessee shall be or become effective by operation of law, or otherwise, unless and until the Lessor shall have given written notice to the Lessee of the election on the part of the Lessor to terminate this Lease. The Lessee covenants and agrees that no surrender of the Leased Premises 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 Lessor by such written notice. No such termination shall be effected whether by operation of law or acts of the parties hereto, except only in the manner herein expressly provided.

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

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

Section 9.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6 Application of the Proceeds from the Sale or Lease of the Leased Premises. All amounts received by the Lessor under this Article other than as provided in Section 9.2(b) herein, after payment of all fees and expenses of the Trustee including but not limited to attorneys' fees and other Additional Payments, shall be applied by the Trustee as set forth in Section 13.3 of the Trust Agreement.

Section 9.7 Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Lessor under this Article have been assigned by the Lessor to the Trustee under the Assignment Agreement, to which assignment the Lessee hereby consents. Such rights and remedies shall be exercised by the Trustee, at, the direction of the Owners of the Certificates as provided in the Trust Agreement.

ARTICLE X

PREPAYMENT OF LEASE PAYMENTS AND PURCHASE OF LEASED PREMISES

Section 10.1 Security Deposit. Notwithstanding any other provision of this Lease, the Lessee may on any date exercise its option to prepay its obligations hereunder by an irrevocable deposit by it with the Trustee of: (i) an amount of cash which, together with amounts on deposit in the Lease Payment Fund, is sufficient to pay the prepayment prices set forth in Section 4.4 of the Trust Agreement (expressed as a percentage of the Principal Component of Certificates of the Series to be prepaid), plus accrued interest to the date fixed for prepayment, or (ii) Federal Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, and money then on deposit in the Lease Payment Fund relating to Series of Certificates to be prepaid, together with interest thereon, be fully sufficient to pay the prepayment prices set forth in Section 4.4 of the Trust Agreement (expressed as a percentage of the Principal Component of Certificates of the Series to be prepaid), plus accrued interest to the date fixed for prepayment, as the Lessee with respect to payments of Lease Payments shall instruct at the time of said deposit. In the event of a deposit pursuant to this Section, and provided that the Lessee has satisfied all requirements for defeasing the Certificates under Section 14.1 of the Trust Agreement, all obligations of the Lessee under this Lease, and all security provided by this Lease for said obligations, shall cease and terminate, excepting only the obligation of the Lessee to make, or cause to be made, Lease Payments from the deposit made by the Lessee pursuant to this Section, and satisfaction of all obligations to pay Additional Payments, and title to the Leased Premises shall vest in the Lessee on the date of said deposit automatically and without further action by the Lessee or the Lessor (except as provided herein). Said deposit shall be deemed to be and shall constitute a special fund for the payment of the Lease Payments in accordance with the provisions of this Lease. The Lessor shall execute and deliver such further instruments and take such further action as may reasonably be requested by the Lessee for carrying out the title transfer of the Leased Premises.

Section 10.2 Mandatory Prepayment From Net Insurance Proceeds. The Lessee shall be obligated to prepay the Lease Payments and the Certificates in whole or in part any January 1 or July 1 from and to the extent of any Net Insurance Proceeds heretofore transferred to the Prepayment Fund pursuant to Section 7.1 of the Trust Agreement subject to the requirements of Section 6.2(a) hereof and Section 7.1 of the Trust Agreement. The Lessee and the Lessor hereby agree that such Net Insurance Proceeds shall be credited towards the Lessee's obligations hereunder. Except in the case of such prepayment of the Lease Payments in whole, such prepayment shall be credited to the Lease Payment as directed in writing by the Lessee.

Section 10.3 Credit for Amounts on Deposit. In the event of prepayment of the Principal Components of the Lease Payments in full under Section 10.1, all amounts then on deposit in the Lease Payment Fund shall be credited toward the amounts then required to be so prepaid.

ARTICLE XI

MISCELLANEOUS

Section 11.1 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received five business days after deposit in the United States first-class mail, postage prepaid, to the Lessee and the Lessor at the following addresses:

If to the Lessee: City of Manhattan Beach
 1400 Highland Avenue
 Manhattan Beach, California 90266
 Attention: City Manager

If to the Lessor: Manhattan Beach Capital Improvements Corporation
 1400 Highland Avenue
 Manhattan Beach, California 90266
 Attention: Chief Administrative Officer

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

Section 11.2 Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Lessor and the Lessee and their respective successors and assigns.

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

Section 11.4 Net-Net-Net Lease. This Lease shall be deemed and construed to be a “net-net-net lease” and the Lessee hereby agrees that the Lease Payments shall be an absolute net return to the Lessor, free and clear of any expenses, charges or set-offs whatsoever, except as expressly provided herein.

Section 11.5 No Merger of Estates. The Lease shall not operate as a merger of the Lessee’s leasehold estate in the Leased Premises pursuant to this Lease and its fee estate in the Leased Premises and shall not cause the extinguishment of the leasehold interest granted to the Lessor under the Site Lease.

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

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

Section 11.8 **Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California, applicable to contracts made and performed in such State.

Section 11.9 **Third-Party Beneficiaries.** The Certificate Owners are expressly recognized as third-party beneficiaries under this Lease.

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

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION,
as Lessor

By: _____
Chief Administrative Officer

APPROVED AS TO FORM:

By: _____
Counsel to the Corporation

CITY OF MANHATTAN BEACH, as City

By: _____
City Manager

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

EXHIBIT A

SCHEDULE OF LEASE PAYMENTS

Lease Payment Date	Principal Component	Interest Component	Total
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EXHIBIT B
DESCRIPTION OF LEASED PREMISES

[\$[PAR AMOUNT]]
CERTIFICATES OF PARTICIPATION
(Metlox and Water/Wastewater Refunding) Series 2012
Evidencing The Proportionate Interests Of the Owners
Thereof In Lease Payments To Be Made By The
CITY OF MANHATTAN BEACH
As the Rental for Certain Leased Premises Pursuant to a Lease Agreement with the
Manhattan Beach Capital Improvements Corporation

June __, 2012

PURCHASE CONTRACT

Manhattan Beach Capital
Improvements Corporation
Manhattan Beach, California

City of Manhattan Beach
Manhattan Beach, California

Ladies and Gentlemen:

The undersigned, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), offers to enter into this Purchase Contract (this "Purchase Contract") with the Manhattan Beach Capital Improvements Corporation (the "Corporation") and the City of Manhattan Beach (the "City"), which upon acceptance will be binding upon the Underwriter, the Corporation and the City. This offer is made subject to the Corporation's and the City's acceptance by the execution of this Purchase Contract and their delivery to the Underwriter on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the Corporation and the City at any time prior to the acceptance hereof by the Corporation and the City. All capitalized terms used herein, which are used and not otherwise defined herein, shall have the meanings ascribed to such terms in the Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), by and among the Corporation, the City and U.S. Bank National Association, as trustee (the "Trustee").

The Certificates are being executed and delivered to (a) refund the City's \$[_____] outstanding Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates") and \$[_____] outstanding Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates" and, together with the 2003 Certificates, the "Refunded Certificates"); (b) fund a reserve fund for the above-captioned Certificates (the "Certificates"); and (c) pay certain costs of issuance associated with the Certificates. The City will execute a Site and Facilities Lease, dated as of June 1, 2012 (the "Site Lease"), pursuant to which the City will lease the Leased Premises (as defined in the Site Lease) to the Corporation. The Certificates evidence and represent the proportionate undivided interests of the registered owners thereof in certain Lease Payments to be made by the City as the rental for the use and possession of the Leased Premises to be leased from the Corporation pursuant to the Lease Agreement, dated as of June 1, 2012 (the "Lease Agreement"), by and between the

Corporation and the City. Pursuant to the Assignment Agreement, dated as of June 1, 2012, by and between the Corporation and the Trustee (the "Assignment Agreement"), the Corporation will assign to the Trustee, for the benefit of the owners, its rights under the Lease Agreement. Pursuant to an Escrow Agreement, dated as of June 1, 2012 (the "1996 Escrow Agreement") relating to the 1996 Certificates and an Escrow Agreement, dated as of June 1, 2012 (the "2003 Escrow Agreement") relating to the 2003 Certificates, each between the City and U.S. Bank National Association, as escrow agent, the proceeds of the Certificates will be placed into escrow to affect the refunding of the Refunded Certificates.

Section 1. Purchase, Sale and Delivery of the Certificates.

(a) Subject to the terms and conditions, and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Corporation, and the Corporation hereby agrees to sell to the Underwriter, all (but not less than all) of the Certificates, dated the date of delivery, bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit A hereto. The obligation of the City to make Lease Payments as set forth in the Lease Agreement constitutes an obligation of the City, payable during such period as the City has full use and occupancy of the Leased Premises, from funds of the City legally available therefor.

The purchase price for the Certificates shall be \$[PURCHASE PRICE] (representing the principal amount of the Certificates of \$[PAR AMOUNT][, plus net bond issuance premium of \$_____ and] less an Underwriter's discount of \$[UWD]); it being acknowledged that the Underwriter will on the Closing Date, deliver net proceeds to the City in the amount of \$[PURCHASE PRICE]. The Certificates shall be substantially in the form described in, shall be executed and delivered and secured under the provisions of the Trust Agreement.

The City acknowledges and agrees that: (i) the primary role of the Underwriter, as an underwriter, is to purchase securities, for resale to investors, in an arm's length commercial transaction among the City, the Corporation and the Underwriter and the Underwriter has financial and other interests that differ from those of the City and the Corporation; (ii) the Underwriter is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the City or the Corporation and has not assumed any advisory or fiduciary responsibility to the City or the Corporation with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City or the Corporation on other matters); (iii) the only obligations the Underwriter has to the City or the Corporation with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract; and (iv) the City and the Corporation have consulted their own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent they have deemed appropriate.

(b) Pursuant to the authorization of the City and the Corporation, the Underwriter has distributed copies of the Preliminary Official Statement dated June [___], 2012, relating to the Certificates, which, together with the cover page, the inside cover page and appendices thereto, and any supplements or amendments thereto and as disseminated in its printed physical form or in electronic form in all respects materially consistent with such physical form, is herein called

the "Preliminary Official Statement." By their acceptance of this Purchase Contract, the Corporation and the City hereby ratify the use by the Underwriter of the Preliminary Official Statement; and the City agrees to execute a final official statement relating to the Certificates (such Official Statement, including the cover page, and all appendices attached thereto, together with all information previously permitted to have been omitted by Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12") and any amendments or supplements thereto, as have been approved by the City, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Special Counsel ("Special Counsel"), and as Disclosure Counsel ("Disclosure Counsel") and the Underwriter, is referred to herein as the "Official Statement") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of the City, Special Counsel and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 3(r) hereof. The City hereby authorizes the Underwriter to use and promptly distribute, in connection with the offer and sale of the Certificates, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The Corporation and the City further authorize the Underwriter to use and distribute, in connection with the Purchase Contract and all information contained herein, all other documents, certificates and statements furnished by or on behalf of the Corporation or the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract. The Preliminary Official Statement heretofore delivered to the Underwriter has been deemed final by the City and the Corporation as of its date, except for the omission of such information as is permitted to be omitted in accordance with Rule 15c2-12.

(c) Except as the Underwriter and the City may otherwise agree, the City will deliver to the Underwriter, at the offices of Special Counsel or at such other location as may be mutually agreed upon by the Underwriter and the City, the documents hereinafter mentioned and the Corporation will deliver to the Underwriter at the offices of The Depository Trust Company ("DTC") in New York, New York or to the Trustee, if the closing will occur under DTC's "FAST" program, the Certificates, in definitive form (all Certificates bearing CUSIP numbers), duly executed by the Corporation and authenticated by the Trustee in the manner provided for in the Trust Agreement at 8:00 a.m. California time, on [June 26], 2012 (the "Closing Date"), and the Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in paragraph (a) of this Section, in immediately available funds (such delivery and payment being herein referred to as the "Closing"). The Certificates shall be made available to the Underwriter for inspection not later than two Business Days prior to the Closing Date. The Certificates shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC.

(d) The Underwriter agrees to make a bona fide public offering of all the Certificates initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change such initial offering price or prices as the Underwriter shall deem necessary in connection with the marketing of the Certificates and to offer and sell the Certificates to certain dealers unit investment trusts and money market funds, certain of which may be sponsored or managed by the Underwriter at prices lower than the public offering prices or yields greater than the yields set forth herein. The Underwriter also reserves the right (i) to over-allot or effect transactions which stabilize or maintain the market price of the Certificates at

a level above that which might otherwise prevail in the open market, and (ii) to discontinue such stabilizing, if commenced at any time.

(e) In order to assist the Underwriter in complying with Rule 15c2-12, the Corporation and the City will, pursuant to the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), dated as of the Closing Date, between the City and the Trustee, as dissemination agent thereunder, undertake to provide certain annual financial information and notices of the occurrence of specified events. A description of this undertaking is set forth in the Preliminary Official Statement and the final Official Statement.

Section 2. Representations, Warranties and Agreements of the Corporation. The Corporation represents, warrants to, covenants and agrees with, the Underwriter that:

(a) The Corporation is a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California (the "State") and has, and at the Closing Date, will have, full legal right, power and authority (i) to enter into, execute, deliver and perform its obligations under this Purchase Contract, the Trust Agreement, the Lease Agreement, the Site Lease and the Assignment Agreement (collectively, the "Corporation Documents"), (ii) to execute and deliver the Certificates to the Underwriter pursuant to the Trust Agreement and as provided herein, and (iii) to carry out, give effect to and consummate the transactions contemplated by the Corporation Documents and the Official Statement. To the best knowledge of the Corporation, each of the Corporation Documents has been executed and delivered, or will be executed and delivered on or before the Closing Date, by each respective signatory and is currently in full force and effect or, as of the Closing Date, will be in full force and effect.

(b) The Corporation has complied, and will at the Closing Date be in compliance, in all respects with the Corporation Documents.

(c) The Board of Directors of the Corporation has, by all necessary action of the Corporation, including the adoption of a resolution adopted by the Board of Directors of the Corporation on _____, 2012 (the "Corporation Resolution"), duly and validly: (i) approved and authorized the execution and delivery of the Corporation Documents, the Certificates and the Official Statement and approved the distribution of the Preliminary Official Statement, and (ii) authorized and approved the performance by the Corporation of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, the Corporation Resolution and each of such documents. The Corporation Resolution was duly adopted at a meeting of the Corporation 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 is in full force and effect and has not been amended or repealed.

(d) Except as described in the Official Statement, to the best knowledge of the Corporation, the Corporation is not in any material respect in breach of or in default under, any law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Corporation is a party or is otherwise subject or

bound, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute a material default or event of default under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Corporation is a party or is otherwise subject or bound, and the performance by the Corporation of its obligations under the Corporation Resolution, the Certificates, the Corporation Documents or any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict, in any material way, with or constitute a material breach of or default under any applicable law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Corporation is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the Corporation of its obligations under the Corporation Resolution, the Certificates or the Corporation Documents.

(e) Except as may be required under the "blue sky" or other securities laws of any jurisdiction, 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 Corporation of its obligations under each of the Corporation Documents and the Certificates have been obtained by the Corporation.

(f) The information concerning the Corporation contained in the Preliminary Official Statement, as of its date and as of the date hereof, and in the Official Statement, as of its date and at all times after the date of the Official Statement up to and including the Closing Date, relating to the Corporation, is true, correct and complete in all material respects and does not, and on the Closing Date such information concerning the Corporation will not, contain any untrue statement of a material fact or omit to state any material fact which is necessary to make such statements and information therein, in light of the circumstances under which they were made, not misleading in any material respect.

(g) If after the date of this Purchase Contract and until twenty-five (25) days after the End of the Underwriting Period (as hereinafter defined), any event shall occur, of which the Corporation has notice, as a result of which it may be necessary to supplement the Official Statement to make the statements therein, in the light of the circumstances existing at such time, not misleading, the Corporation shall immediately notify the City and the Underwriter of any such event of which it has knowledge and, if in the opinion of the Underwriter such event requires an amendment or supplement to the Official Statement, the Corporation will at its own expense, or will cause the City, at its own expense, to amend or supplement the Official Statement in a form and manner jointly approved by the City, the Corporation and the Underwriter so that the statements therein as so amended or supplemented will not be misleading in the light of the circumstances existing at such time and the Corporation will promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. As used herein the term "End of the Underwriting Period" means the later of such time as (i) the Corporation delivers the Certificates to the Underwriter, or (ii) the Underwriter does not retain an unsold balance of the Certificates for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any

notice delivered pursuant to this provision shall be written notice delivered to the Corporation at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "End of the Underwriting Period."

(h) No action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency or public board or body is pending and notice of which has been served on and received by the Corporation, or, to the best knowledge of the Corporation, threatened in any way affecting the existence of the Corporation or the titles of its officers to their respective offices or seeking to restrain or to enjoin the execution and delivery of the Certificates, the application of the proceeds thereof in accordance with the Corporation Documents, the assignment of the Lease Payments to the Trustee under the Assignment Agreement or in any way contesting or affecting the validity or enforceability of the Certificates, the Corporation Resolution or any action of the Corporation contemplated by any of such documents, or in any way contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or the powers of the Corporation or its authority with respect to the Certificates, the Corporation Resolution, the Corporation Documents or any action of the Corporation contemplated by any of such documents, or which contests the exclusion from gross income for federal income tax purposes of interest paid on the Certificates or the exemption of interest paid on the Certificates from State personal income taxation, or which, if adversely determined, could materially adversely affect the financial position or operating condition of the Corporation or the transactions contemplated by the Official Statement or any of the other Corporation Documents. The Corporation shall advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Preliminary Official Statement or the Official Statement in connection with the offering, sale or distribution of the Certificates.

(i) The Corporation will apply the proceeds of the Certificates in accordance with the Trust Agreement.

(j) Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Certificates at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest with respect to the Certificates and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the Corporation will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Trust Agreement.

Section 3. Representations, Warranties and Agreements of the City. The City represents, warrants to, covenants and agrees with the Underwriter that:

(a) The City is a general law city duly organized and existing under the laws of the State, with full right, power and authority to enter into and perform its duties under this Purchase Contract, the Trust Agreement, the Lease Agreement, the Site Lease and the Continuing Disclosure Agreement, the 2003 Escrow Agreement, and the 1996 Escrow Agreement (collectively, the "City Documents"), and, when executed and delivered by the respective parties thereto, the City Documents will constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally, or by the exercise of judicial discretion and the

limitations on legal remedies against cities in the State. To the best knowledge of the City, each of the City Documents has been executed and delivered, or will be executed and delivered on or before the Closing Date, by each respective signatory and is currently in full force and effect or, as of the Closing Date, will be in full force and effect.

(b) By all necessary official action of the City, prior to or concurrently with the acceptance hereof, including by resolution adopted by the City Council of the City on _____, 2012 (the "City Resolution"), the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the Official Statement. The City Resolution was duly adopted at a meeting of the City 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 is in full force and effect and has not been amended or repealed.

(c) The information contained in the Preliminary Official Statement, as of its date and as of the date hereof, and in the Official Statement, as of its date and at all times after the date of the Official Statement up to and including the Closing Date, is true, correct and complete in all material respects and does not, and on the Closing Date such information will not, contain any untrue statement of a material fact or omit to state any material fact which is necessary to make such statements and information therein, in light of the circumstances under which they were made, not misleading in any material respect (except this representation does not include information relating to DTC or its book-entry only system). If the information in the Official Statement is supplemented or amended, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended) at all times subsequent thereto up to and including the time of the Closing, the Official Statement as so supplemented or amended will be true and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) The Trust Agreement, the Lease Agreement and the Certificates conform to the descriptions thereof contained in the Official Statement.

(e) To the best knowledge of the City, the execution and delivery of the City Documents and compliance with the provisions on the City's part contained herein and therein will not, to any material extent, conflict with or constitute a material breach of or default under the City's duties under said documents or any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, articles, bylaws, agreement or other instrument to which the City is a party or is otherwise subject, which material conflict, breach or default could have a material adverse effect on the ability of the City to perform its obligations under the City Resolution or City Documents, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, articles, bylaws, agreement or other instrument, except as provided by the City Documents.

(f) Except as described in the Official Statement, to the best knowledge of the City, the City is not in any material respect in breach of or in default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, articles, bylaws, resolution, agreement or other instrument to which the City is a party or is otherwise subject which could have a material adverse effect on the City's ability to perform its obligations under the City Resolution or the City Documents and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material default or an event of default under any such instrument.

(g) Except as may be required under the "blue sky" or other securities laws of any jurisdiction, 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 City of its obligations under each of the City Documents and the Certificates.

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Certificates for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions; provided, however, that the City shall not be required to execute a general consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction. It is understood that such "blue sky" registration is the sole responsibility of the Underwriter.

(i) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending and notice of which has been served on and received by the City or, to the best knowledge of the City, threatened against the City affecting the existence of the City or challenging the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the execution or delivery of the Certificates, or in any way contesting or affecting the validity or enforceability of this Purchase Contract, the City Resolution or the City Documents or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness, accuracy or fairness of the Official Statement or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Certificates, the City Resolution or the City Documents, or which, if adversely determined, could materially adversely affect the financial position or operating condition of the Corporation or the transactions contemplated by the Official Statement or any of the other Corporation Documents. The City shall advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Preliminary Official Statement or the Official Statement in connection with the offering, sale or distribution of the Certificates.

(j) Between the date hereof and the time of the Closing, the City shall not, without the prior written consent of the Underwriter, offer or issue in any material amount any bonds,

notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, except in the course of normal business operations of the City or except for such borrowings as may be described in or contemplated by the Official Statement

(k) If between the date hereof and the date which is 25 days following the End of the Underwriting Period for the Certificates an event occurs of which the City has knowledge, which might or would cause the information relating to the City contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in light of the circumstances under which it was presented, not misleading, the City will notify the Corporation and the Underwriter, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to such portions of the Official Statement, the City will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the City.

(l) The Leased Premises and the City's use and enjoyment thereof is essential to City operations (other than the Metlox project) and the exceptions set forth in the title insurance policy for the Leased Premises insuring, subject only to Permitted Encumbrances, the fee interest of the City in the Leased Premises, the Corporation's leasehold estate in the Leased Premises under the Site Lease, and the City's leasehold estate in the Leased Premises under the Lease Agreement, do not materially impair the use of the Leased Premises, the existing facilities and the sites thereof for the purposes for which they are or may reasonably be expected to be held.

(m) The financial statements of, and other financial information regarding, the City contained in the Official Statement fairly present the financial position and results of the operations of the City as of the dates and for the periods therein set forth.

(n) Since June 30, 2011, no material adverse change has occurred in the financial condition, assets, properties or results of operation of the City which is not described in the Preliminary Official Statement.

(o) As of the Closing Date, no event affecting the City shall have occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(p) The City has not failed to comply in the last five years in any material respect with the terms of any continuing disclosure agreement entered into prior to the date hereof relating to the provision of annual reports in accordance with Rule 15c2-12.

(q) Within seven (7) business days from the date hereof, and in any event not later than two (2) business days before the Closing Date, the City shall deliver to the Underwriter a final Official Statement relating to the Certificates dated the date hereof and such additional conformed copies thereof as the Underwriter may reasonably request in sufficient quantities to comply with Rule 15c2-12, rules of the Municipal Securities Rulemaking Board ("MSRB") and

to meet potential customer requests for copies of the Official Statement. The Underwriter agrees to file a copy of the Official Statement, including any amendments or supplements thereto prepared by the City, with the MSRB on its Electronic Municipal Markets Access ("EMMA") system. The City shall execute the Official Statement by an authorized officer of the City. The Official Statement shall be in substantially the same form as the Preliminary Official Statement and, other than information previously permitted to have been omitted by Rule 15c2-12, the City shall only make such other additions, deletions, and revisions and recent developments in the Official Statement which are approved by the Underwriter or which the City or its Counsel determines is required under or applicable. The Underwriter hereby agrees to cooperate and assist in the preparation of the Official Statement. The City hereby agrees to deliver to the Underwriter an electronic copy of the Official Statement in a form that permits the Underwriter to satisfy its obligations under the rules and regulations of the MSRB and the U.S. Securities and Exchange Commission ("SEC").

The execution and delivery of this Purchase Contract by the City shall constitute a representation to the Underwriter that the representations and warranties contained in this Section 3 are true as of the date hereof.

Section 4. Conditions Precedent. The Underwriter has entered into this Purchase Contract in reliance upon the representations and agreements of the City and the Corporation contained herein and the performance by the City and the Corporation of their obligations hereunder, both as of the date hereof and as of the Closing Date.

(a) The Underwriter's obligations under this Purchase Contract are and shall be subject to the following further conditions:

(i) The representations of the City and the Corporation contained herein shall be true, complete and correct in all material respects on the date of acceptance hereof and on and as of the Closing Date.

(ii) At the time of the Closing, the Official Statement, the City Resolution, the Corporation Resolution, the City Documents and the Corporation Documents shall be in full force and effect and shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter.

(iii) The City shall perform or have performed all of its obligations required under or specified in the City Resolution, the City Documents, and the Official Statement to be performed at or prior to the Closing.

(iii) The Corporation shall perform or have performed all of its obligations required under or specified in the Corporation Resolution, the Corporation Documents, and the Official Statement to be performed at or prior to the Closing.

(iv) The City shall have delivered to the Underwriter final Official Statements by the time, and in the numbers, required by Section 3(r) of this Purchase Contract.

(v) As of the date hereof and at the time of Closing, all necessary official action of the City relating to the City Documents 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.

(v) As of the date hereof and at the time of Closing, all necessary official action of the Corporation relating to the Corporation Documents 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.

(vi) After the date hereof, up to and including the time of the Closing, there shall not have occurred any change in or particularly affecting the City, the Corporation, the City Charter, the City Resolution, the Corporation Resolution, the City Documents, the Corporation Documents, the Lease Payments or the Certificates as the foregoing matters are described in the Official Statement, which in the reasonable professional judgment of the Underwriter materially impairs the investment quality of the Certificates.

(vii) At or prior to the Closing, the Underwriter shall receive the following documents (in each case with only such changes as the Underwriter shall approve):

(1) The Official Statement, executed on behalf of the City by the City Manager;

(2) The Corporation Documents and the City Documents duly executed and delivered by the parties thereto;

(3) The City Resolution authorizing the execution and delivery of the City Documents, together with a certificate of the Secretary of the City Council, dated as of the Closing Date, to the effect that such resolutions are true, correct and complete copies of the resolutions duly adopted by the City Council;

(4) The Corporation Resolution, together with a certificate of the Secretary of the Corporation, dated as of the Closing Date, to the effect that such resolution is a true, correct and complete copy of the resolution duly adopted by the Board of Directors of the Corporation;

(5) An approving opinion, dated the Closing Date and addressed to the City and the Corporation, of Special Counsel in substantially the form included as Appendix C to the Official Statement, together with a reliance letter of Special Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion addressed to the City and the Corporation may be relied upon by the Underwriter to the same extent as if such opinion was addressed to the Underwriter;

(6) A supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Special Counsel, to the effect that: this Purchase Contract, the Corporation Documents and the City Documents have been duly authorized, executed and delivered by the Corporation and the City, as appropriate, and, assuming due authorization, execution and delivery by the other parties thereto, are legal, valid and binding agreements of the Corporation and the City,

respectively, enforceable in accordance with their terms, except as limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law, to the joint exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California); (ii) the Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and (iii) the statements in the Official Statement under the captions "THE 2012 CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 CERTIFICATES," "TAX MATTERS" and "CONTINUING DISCLOSURE" and in [Appendix B] to the Official Statement, insofar as such statements purport to summarize certain provisions of the Certificates, the Corporation Documents, the City Documents and Special Counsel's final opinion present a fair and accurate summary of such provisions;

(7) an opinion of Disclosure Counsel, dated the Closing Date and addressed to the City and the Underwriter, to the effect that, without passing upon or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and without having independently verified the accuracy, completeness or fairness of the statements contained in the Official Statement, but on the basis of their participation in conferences with the City, the City Attorney, the City's Financial Advisor, the Underwriter, Underwriter's Counsel and others, and their reliance thereon and on certain specified records, documents, certificates, opinions and matters, no facts came to the attention of the attorneys in the firm rendering legal services in connection with the issuance of the Certificates which caused them to believe that the Official Statement as of its date and as of the Closing Date contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that no opinion or belief need be expressed as to any CUSIP numbers, financial, accounting, statistical, economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, or as to Appendices A and D thereof, and information regarding DTC and its book- entry only system contained in the Official Statement);

(8) An opinion of counsel to the Corporation ("Corporation Counsel"), dated the date of the Closing, which counsel may also serve as counsel to the City, and addressed to the Underwriter, in substantially the form attached hereto as Exhibit B;

(i) .

(9) An opinion of the City Attorney, dated the Closing Date, in substantially the form attached hereto as Exhibit B;

(10) An opinion of Nixon Peabody LLP, Los Angeles, California (“Underwriter’s Counsel”), dated the Closing Date, addressed to the Underwriter, in form and substance satisfactory to the Underwriter;

(11) A certificate, dated the Closing Date and signed by an authorized representative of the Corporation or his or her authorized designee, to the effect that: (i) the representations and warranties of the Corporation contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, (ii) the City Documents have been duly authorized and executed and are in full force and effect, (iii) the Corporation has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied under the Corporation Documents and the Official Statement at or prior to the Closing Date, and (iv) except as described in the Official Statement, no litigation is pending or, to his or her knowledge, threatened (A) seeking to restrain or enjoin the execution or delivery of any of the Certificates, (B) in any way contesting or affecting any authority for the execution or delivery of the Certificates or the validity of the Certificates, the Corporation Resolution or any Corporation Document, (C) in any way contesting the creation, existence or powers of the Corporation or the validity or effect of the City Charter or any provision thereof or the application of the proceeds of the Corporation, or (D) which, if adversely determined, could materially adversely affect the financial position or operating condition of the Corporation or the transactions contemplated by the Official Statement or any Corporation Document; and (v) to the best of his or her knowledge, no event affecting the Corporation has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which should be disclosed therein in order to make the statements and information therein not misleading in any material respect;

(12) A certificate of the City, dated the Closing Date and signed by an authorized signatory, on behalf of the City to the effect that: (i) the representations and warranties of such City contained in the City Documents are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, (ii) the City Documents have been duly authorized and executed and are in full force and effect; (iii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect, (iv) the City has complied with all the agreements and satisfied all the conditions on its part to be satisfied under the City Documents and the Official Statement at or prior to the Closing Date, (v) except as described in the Official Statement, no litigation is pending and notice of which has been served on and received by the City or, to his or her knowledge, threatened (A) seeking to restrain or enjoin the execution or delivery of any of the Certificates, (B) in any way contesting or affecting any authority for the execution or delivery of the Certificates or the validity of the Certificates, the City Resolution or any City Document, (C) in any way contesting

the creation, existence or powers of the Corporation or the validity or effect of the City Charter or any provision thereof or the application of the proceeds of the City, or (D) which, if adversely determined, could materially adversely affect the financial position or operating condition of the City or the transactions contemplated by the Official Statement or any City Document; and (vi) except as disclosed in the Official Statement, since June 30, 2011, no materially adverse change has occurred, or any development involving a prospective material change, in the financial position or results of operations of the City and the City has not incurred since June 30, 2011, any material liabilities other than in the ordinary course of business or as set forth in or contemplated by the Official Statement;

(13) A transcript of all proceedings relating to the authorization, execution and delivery of the Certificates, including certified copies of each of the Corporation Resolution and the City Resolution;

(14) Certified copies of the general resolution, or excerpt thereof, of U.S. Bank National Association, as Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution of the Trust Agreement, the Continuing Disclosure Agreement and the Assignment Agreement;

(15) A certificate of the Trustee, dated the Closing Date, to the effect that (i) the Trustee has been duly organized and is validly existing in good standing as a national banking association duly organized under the laws of the United States of America with full corporate power to undertake the trust of the Trust Agreement; (ii) the Trustee is authorized to carry out corporate trust powers, and has full power and authority to perform its duties under the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement; (iii) the Trustee is duly authorized to execute and deliver the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement, to accept the obligations created by the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement and to authenticate the Certificates pursuant to the terms of the Trust Agreement; (iv) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the authentication of the Certificates of the consummation by the Trustee of the other transactions contemplated to be performed by the Trustee in connection with the authentication of the Certificates and the acceptance and performance of the obligations created by the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement; (v) compliance with the terms of the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement, will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule,

regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties; (vi) there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Certificates, the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement; and (vii) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Certificates or the collection of revenues to be applied to pay the principal, premium, if any, and interest with respect to the Certificates, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Trust Agreement or the power and authority of the Trustee to enter into and perform its duties under the Trust Agreement and to authenticate and deliver the Certificates to or upon the order of the Underwriter;

(16) An opinion of counsel to the Trustee, dated the Closing Date, addressed to the Underwriter, the City and the Corporation to the effect that (i) the Trustee has been duly organized and is validly existing in good standing as a national banking association duly organized under the laws of the United States of America with full corporate power to undertake the trust of the Trust Agreement; (ii) the Trustee has duly authorized, executed and delivered the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement and, assuming due execution and delivery by the other parties thereto, the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement constitute the legal, valid and binding obligations of the Trustee, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought; (iii) exclusive of federal or state securities laws and regulations, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform a trust business (all of which routine filings counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Trust Agreement, the Assignment Agreement, the Escrow Agreement or the Continuing Disclosure Agreement or the execution and delivery of the Certificates; and (iv) there is no litigation pending or threatened against or

affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Certificates, the Trust Agreement, the Assignment Agreement, the Escrow Agreement and the Continuing Disclosure Agreement;

(17) A certified copy of each of the Articles of Incorporation and Bylaws of the Corporation;

(18) A verification report of Grant Thornton LLP (the "Verification Agent"), as to the sufficiency of the amount deposited in the escrow fund established under the Escrow Agreement;

(19) An original or certified good standing certificate of the Secretary of State of the State of California, with respect to the Corporation bearing the seal of the Secretary of State of the State of California;

(20) A Tax Certificate delivered by the City on the Closing Date in form and substance acceptable to Special Counsel and the Underwriter;

(21) Evidence of the existence and validity of a policy or policies of Title Insurance with respect to the Leased Premises;

(22) [DISCUSS] Certificates by an insurance consultant or insurance broker retained by the City and by the City's official responsible for risk management that the requisite level of "all risk," boiler and machinery coverage insurance has been secured and maintained pursuant to the Lease Agreement;

(23) Evidence that the Certificates have been rated "___" by Standard & Poor's;

(24) A copy of the Blue Sky Survey with respect to the Certificates; and

(25) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the material representations and warranties of the Corporation and the City contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Corporation and the City at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the City and the Corporation in connection with the transactions contemplated hereby and by the Official Statement.

Section 5. Termination. If the City or the Corporation shall be unable to satisfy their conditions of the Underwriter's obligations contained in this Purchase Contract or if the Underwriter's obligations shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract may be cancelled by the Underwriter at, or at any time before, the time of the Closing. Notice of such cancellation shall be given by the Underwriter to the City and the Corporation in writing, or by telephone confirmed in writing. The performance by the City and

the Corporation of any and all conditions contained in this Purchase Contract for the benefit of the Underwriter may be waived by the Underwriter.

(a) The Underwriter shall also have the right, before the time of Closing, to cancel its obligations to purchase the Certificates, by written notice by the Underwriter to the City and the Corporation, if between the date hereof and the time of Closing:

(i) Any event or circumstance occurs or information becomes known, which, in the professional judgment of the Underwriter, makes untrue any statement of a material fact set forth in the Official Statement or results in an omission to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; or

(ii) The market for the Certificates or the market prices of the Certificates or the ability of the Underwriter to enforce contracts for the sale of the Certificates shall have been materially and adversely affected, in the professional judgment of the Underwriter, by:

(1) An amendment to the Constitution of the United States or the State shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State authority, with respect to federal or State taxation upon revenues or other income of the general character to be derived by the City or the Corporation or upon interest received on obligations of the general character of the Certificates which, in the judgment of the Underwriter, may have the purpose or effect, directly or, indirectly, of affecting the tax status of the City or the Corporation, its property or income, its securities (including the Certificates) or the interest thereon, or any tax exemption granted or authorized by State legislation; or

(2) The declaration of war or engagement in or escalation of military hostilities by the United States or the occurrence of any other national emergency or

calamity or terrorism affecting the operation of the government of, or the financial community in, the United States; or

(3) The declaration of a general banking moratorium by federal, New York or State authorities; or

(4) The occurrence of a major financial crisis, a material disruption in commercial banking or securities settlement or clearance services, or a material disruption or deterioration in the fixed income or municipal securities market; or

(5) Additional material restrictions not in force or being enforced as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; or

(6) The general suspension of trading on any national securities exchange; or

(iii) Legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter shall have been made or issued to the effect that the Certificates, other securities of the City or the Corporation or obligations of the general character of the Certificates are not exempt from registration under the 1933 Act, or that the Indenture is not exempt from qualification under the Trust Indenture Act; or

(iv) Any change in or particularly affecting the City or the Corporation, the City Charter, the City Resolution, the Corporation Resolution, the City Documents, the Corporation Documents, the Lease Payments or the Certificates as the foregoing matters are described in the Official Statement, which in the professional judgment of the Underwriter materially impairs the investment quality of the Certificates; or

(v) An order, decree or injunction of any court of competent jurisdiction, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Certificates, or the execution or delivery of the Certificates, including any or all underlying obligations, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws as amended and then in effect; or

(vi) A stop order, ruling, regulation or official statement by the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made or any other event occurs, the effect of which is that the execution or delivery of the Certificates, or the execution and delivery of any City Documents or Corporation Documents, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws, including the 1933 Act, the Securities Exchange Act of 1934 or the Trust Indenture Act, each as amended and as then in effect; or

(vii) Any litigation shall be instituted or be pending at the time of the Closing to restrain or enjoin the execution or delivery of the Certificates, or in any way contesting or affecting any authority for or the validity of the proceedings authorizing and approving the Certificates, the City Charter, the City Resolution, the Corporation Resolution, the City Documents, the Corporation Documents or the existence or powers of the City or the Corporation with respect to its obligations under the City Documents, the Corporation Documents or the Certificates; or

(viii) A reduction or withdrawal in any of the following assigned ratings, or, as of the Closing Date, the failure by Standard & Poor's to assign the long-term rating of "___" to the Certificates.

Section 6. Expenses.

(a) Whether or not the Underwriter accepts delivery of and pays for the Certificates as set forth herein, it shall be under no obligation to pay, and the Corporation shall pay or cause the City to pay out of the proceeds of the Certificates or any other legally available funds of the City or the Corporation, all expenses incidental to the performance of the Corporation's obligations hereunder, including but not limited to the cost of printing and delivering the Certificates, the City Documents and the Corporation Documents to the Underwriter; the costs of printing and shipping and electronic distribution of the Preliminary Official Statement and the Official Statement in reasonable quantities; the fees and disbursements of the Corporation, the Trustee and its counsel, the Financial Advisor, the Verification Agent, Special Counsel, Corporation Counsel, the City Attorney, accountants, engineers, appraisers, economic consultants and any other experts or consultants retained by the City or the Corporation in connection with the issuance and sale of the Certificates; rating agency fees; advertising expenses; and any other expenses not specifically enumerated in paragraph (b) of this Section incurred in connection with the issuance and sale of the Certificates. The Corporation shall pay, or cause the City to pay out of the proceeds of the Certificates, for any expenses incurred by the Underwriter on behalf of the City's or the Corporation's employees and representatives which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, and lodging of those employees and representatives.

(b) Whether or not the Certificates are delivered to the Underwriter as set for herein, the Corporation shall be under no obligation to pay, and the Underwriter shall be responsible for and pay (which may be included as an expense component of the Underwriter's discount), MSRB, CUSIP Bureau and CDIAC fees and expenses to qualify the Certificates for sale under any "blue sky" laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Certificates not specifically enumerated in paragraph (a) of this Section, including the cost of preparing this Purchase Contract and other Underwriter documents, travel expenses and the fees and disbursements of their counsel.

Section 7. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to the City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266, Attention: City Manager; any notice or other communication to be given to the Corporation under this Purchase Contract may be given by delivering the same in writing to the Manhattan Beach Capital Improvements

Corporation, c/o City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266 Attention: Chief Administrative Officer; 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 Merrill Lynch, Pierce, Fenner & Smith Incorporated, 333 S. Hope Street, Suite 2310, Los Angeles, California 90071, Attention: Frank X. Lauterbur.

Section 8. Parties in Interest. This Purchase Contract is made solely for the benefit of the Corporation, the City and the Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

Section 9. Survival of Representations and Warranties. The representations and warranties of the Corporation and the City hereunder shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the City of the Corporation and regardless of the delivery of and payment for the Certificates.

Section 10. Execution in Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11. No Prior Agreements. This Purchase Contract supersedes and replaces all prior negotiations, agreements and understandings among the parties hereto in relation to the sale of the Certificates for the Corporation. This Purchase Contract, when accepted by the Corporation and the City, shall constitute the entire agreement among the Corporation, the City and the Underwriter with respect to the subject matter hereof.

Section 12. Effective Date. This Purchase Contract shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the Corporation and shall be valid and enforceable as of the time of such acceptance.

Section 13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof

Section 14. State Law Governs. THIS PURCHASE AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND FOR ALL PURPOSES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE. IN THE EVENT OF ANY DISPUTE CONCERNING THIS AGREEMENT, SUIT MAY BE BROUGHT ONLY IN A COURT OF COMPETENT JURISDICTION IN THE COUNTY OF LOS ANGELES, CALIFORNIA.

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER &
SMITH

By: _____
Frank X. Lauterbur
Managing Director

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION

By: _____
Chief Administrative Officer

CITY OF MANHATTAN BEACH

By: _____
David N. Carmany
City Manager

EXHIBIT A**MATURITY SCHEDULE**

\$_____ **SERIAL CERTIFICATES OF PARTICIPATION**

Maturity Date (January 1)	Principal Amount	Interest Rate	Yield
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\$_____ % Term Certificates due January 1, 20__ Priced to Yield _____%*

* Price reflects an assumed par call on the first optional call date of January 1, 20__.

EXHIBIT B

OPINION OF CITY ATTORNEY AND CORPORATION COUNSEL

____, 2012

Manhattan Beach Capital Improvements Bank of America Merrill Lynch
Corporation 333 S. Hope Street, Suite 2310
1400 Highland Avenue Los Angeles, California 90071
Manhattan Beach, California 90266

City of Manhattan Beach
1400 Highland Avenue
Manhattan Beach, California 90266

Opinion of City Attorney and Corporation Counsel

with reference to

\$____

**CERTIFICATES OF PARTICIPATION
(METLOX AND WATER/WASTEWATER REFUNDING) SERIES 2012
Evidencing The Proportionate Interests Of the Owners
Thereof In Lease Payments To Be Made By The
CITY OF MANHATTAN BEACH**

**As the Rental for Certain Leased Premises Pursuant to a Lease Agreement with the
MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION**

Ladies and Gentlemen:

In my capacity as the City Attorney to the City of Manhattan Beach (the "City") and General Counsel to the Manhattan Beach Capital Improvements Corporation (the "Corporation") in connection with the execution and delivery of the above-referenced certificates of participation (the "2012 Certificates"), I have examined such documents, certificates and records as I have deemed relevant and necessary as the basis for the opinion set forth herein. Capitalized terms used and not otherwise defined herein shall have the same meanings as assigned to them in the Purchase Contract, dated ____, 2012 (the "Purchase Contract"), by Bank of America Merrill Lynch, as underwriter, and accepted by the City and the Corporation.

Relying on my examination described above and pertinent law and subject to the limitations and qualifications set forth hereinafter, I am of the following opinion:

1. The City is a municipal corporation organized and validly existing under the laws of the State of California.

2. Resolution No. ____ of the City Council of the City (the "City Resolution") has been duly adopted at a meeting of such City Council that was duly called and held pursuant to law, with all required public notice and at which a quorum was present and acting throughout. The City Resolution is in full force and effect and has not been amended or repealed.

3. To the best of my knowledge, there is no action, suit or proceeding before or by any court, public board or body pending (with service of process having been accomplished on the City) or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the City or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the City Agreements or the 2012 Certificates, (c) find illegal, invalid or unenforceable the City Agreements or the transactions contemplated thereby, or any other agreement or instrument related to the execution and delivery of the 2012 Certificates to which the City is a party, or (d) have a material adverse effect on the ability of the City to make Lease Payments when due.

4. To the best of my knowledge, the execution and delivery of the Official Statement and the City Agreements and compliance with the provisions of each thereof, will not conflict in any material way with or constitute a breach of or default, in any material way, 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 City is a party or is otherwise subject or bound in a manner which would materially adversely affect the City's performance under the City Agreements.

5. The Corporation is a nonprofit public benefit corporation organized and validly existing under the laws of the State of California.

6. Resolution No. ____ of the Corporation (the "Corporation Resolution") has been duly adopted at a meeting of the Board of Directors of the Corporation that was duly called and held pursuant to law, with all required public notice and at which a quorum was present and acting throughout. The Corporation Resolution is in full force and effect and has not been amended or repealed.

7. To the best of my knowledge, the execution and delivery by the Corporation of the Corporation Agreements and the other instruments contemplated by any of such documents to which the Corporation is a party, and compliance with the provisions of each thereof, will not conflict in any material way with or constitute a breach of or default, in any material way, 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 Corporation is a party or is otherwise subject or bound in a manner which would materially adversely affect the Corporation's performance under the Corporation Agreements.

8. To the best of my knowledge, there is no action, suit or proceeding before or by any court, public board or body pending (with service of process having been accomplished on

the Corporation) or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the Corporation or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Corporation Agreements or the 2012 Certificates, or (c) find illegal, invalid or unenforceable the Corporation Agreements or the transactions contemplated thereby, or any other agreement or instrument related to the execution and delivery of the 2012 Certificates to which the Corporation is a party.

This opinion is based on such examination of the laws of the State of California as I deemed relevant for the purposes of this opinion. I have not considered the effect, if any, of the laws of any other jurisdiction upon matters covered by this opinion. I have assumed the genuineness of all documents and signatures, presented to me. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. I express no opinion as to the status of the 2012 Certificates or the interest thereon, the Corporation Agreements or the City Agreements under any federal securities laws or any state securities or "Blue Sky" law or any federal, state or local tax law. No opinion is expressed herein with respect to the validity of the 2012 Certificates or the power of the City and the Corporation to execute and deliver the 2012 Certificates under state law, for which the Corporation and the City are relying on the opinion given by Special Counsel. Further, I express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Corporation Agreements and the City Agreements. Without limiting any of the foregoing, I express no opinion as to any matter other than as expressly set forth above.

Whenever a statement herein is qualified by "to the best of my knowledge," it shall be deemed to indicate that, during the course of my representation of the City and the Corporation in connection with the financing described herein, no information that would give me current, actual knowledge of the inaccuracy of such statement has come to my attention. I have not, however, undertaken any independent investigation to determine the accuracy of such statements, and any limited inquiry undertaken during the preparation of this opinion letter should not be regarded as such investigation. No inference as to my knowledge of any matters bearing upon the accuracy of any such statement should be drawn from the fact of my general representation of the Corporation and the City.

I am furnishing this opinion as City Attorney to the City and General Counsel to the Corporation. Except for the City and the Corporation, no attorney-client relationship has existed or exists between me and the addressees hereof in connection with the 2012 Certificates or by virtue of this opinion. This opinion is rendered solely in connection with the financing described herein, and may not be relied upon by you for any other purpose. I disclaim any obligation to update this opinion. This opinion shall not extend to, and may not be used, quoted, referred to, or relied upon by any other person, firm, corporation or other entity without my prior written consent.

Respectfully submitted,

Richards Watson & Gershon,
A Professional Corporation

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2012

NEW ISSUE - BOOK ENTRY ONLY

Attachment "G"

RATING:
S&P: "___"
(See "RATING" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest with respect to the 2012 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest with respect to the 2012 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Special Counsel to the City, under existing statutes, interest with respect to the 2012 Certificates is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$ _____

**CERTIFICATES OF PARTICIPATION
(Metlox and Water/Wastewater Refunding) Series 2012
Evidencing the Proportionate Interests of the Owners
Thereof in Lease Payments to be made by the
CITY OF MANHATTAN BEACH
As the Rental for Certain Leased Premises Pursuant to a Lease Agreement with the
Manhattan Beach Capital Improvements Corporation**

Dated: Date of Delivery

Due: January 1, as shown on the Inside cover.

The \$ _____ Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "2012 Certificates") are being executed and delivered to (a) refund the City of Manhattan Beach (the "City") \$11,125,000 outstanding Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates") and \$3,240,000 outstanding Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates" and, together with the 2003 Certificates, the "Refunded Certificates"); and (b) pay certain costs of issuance. The 2012 Certificates will be dated the date of their delivery and executed and delivered in the denominations of \$5,000 each or any integral multiple thereof. Interest with respect to the 2012 Certificates will be payable semiannually on each January 1 and July 1, commencing January 1, 2013. The 2012 Certificates will evidence and represent the proportionate interests of the registered owners thereof in Lease Payments (the "Lease Payments") to be made by the City as rent for the use of certain real property located in the City generally consisting of (i) City Hall and the real property on which it is located and (ii) a two level subterranean public parking structure, accommodating 460 vehicles and public areas of approximately 40,000 square feet on top of the parking levels (collectively the "Leased Premises"). The Leased Premises will be leased by the City pursuant to a Lease Agreement, dated as of June 1, 2012 (the "Lease Agreement"), between the City, as lessee, and the Manhattan Beach Capital Improvements Corporation (the "Corporation"), as lessor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 CERTIFICATES."

The 2012 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), by and among the City, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), in fully registered form. When delivered, the 2012 Certificates will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2012 Certificates, Individual purchases of the 2012 Certificates will be made in book-entry form only. Purchasers will not receive certificates representing their interests in the 2012 Certificates purchased. Principal, prepayment premium, if any, and interest payable with respect to the 2012 Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2012 Certificates. See APPENDIX E - "BOOK-ENTRY ONLY SYSTEM."

The 2012 Certificates are subject to optional and mandatory prepayment prior to maturity, as described herein. See "PREPAYMENT."

The obligation of the City to make Lease Payments shall be abated during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Premises by the Lessee. See "RISK FACTORS - Abatement of Lease Payments" herein.

THE OBLIGATION OF THE CITY TO PAY THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND DOES NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The 2012 Certificates are offered when, as and if delivered and received by the Underwriter subject to approval by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel to the City. Certain legal matters will be passed upon for the City and for the Corporation by the City Attorney, by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel to the City and for the Underwriter by its counsel, Nixon Peabody LLP. It is anticipated that the 2012 Certificates will be available for delivery in New York, New York, through the facilities of DTC, on or about June __, 2012.

BofAMerrill Lynch

Dated: June __, 2012

MATURITY SCHEDULE
(Base CUSIP: 562765)

<u>Maturity</u> (January 1)	<u>Principle</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> †
---------------------------------------	-----------------------------------	--------------------------------	--------------	----------------

\$ _____ % Term Certificates due January 1, 20__ Priced to Yield _____ %* CUSIP No.† _____

*Price to par call on January 1, 20__.

† Copyright 2012, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein.

**CITY OF MANHATTAN BEACH
MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION**

City Council/Corporation Board

Wayne Powell, Mayor/President
David Lesser, Mayor Pro-Tem/Vice-President
Amy Howorth, Councilmember/Board Member
Richard Montgomery, Councilmember /Board Member
Nicholas W. Tell, Jr., Councilmember/Board Member

Tim Lilligren, City Treasurer

City Staff

David N. Carmany, City Manager/CAO
Quinn Barrow, Richards Watson Gershon, City Attorney/Counsel
Bruce Moe, Finance Director/Treasurer and CFO
Henry Mitzner, City Controller
Liza Tamura, City Clerk

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel to the City

Stradling Yocca Carlson & Rauth, A Professional Corporation

Financial Advisor

Loop Capital Markets LLC

Trustee

U.S. Bank National Association

Verification Agent

Grant Thornton LLP

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the 2012 Certificates described herein, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Corporation, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the 2012 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City, the Corporation and other sources which are believed to be reliable. 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 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.

Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not as representations that such estimates, assumptions and opinions will be realized or fulfilled. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create only implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2012 Certificates.

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way. Except as set forth in the Continuing Disclosure Agreement, neither the City nor the Corporation plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

IN CONNECTION WITH THE OFFERING OF THE 2012 CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH CERTIFICATES 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 2012 CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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\$ _____ *

**CERTIFICATES OF PARTICIPATION
(Metlox and Water/Wastewater Refunding) Series 2012
Evidencing the Proportionate Interests of the Owners
Thereof in Lease Payments to be made by the
CITY OF MANHATTAN BEACH
As the Rental for Certain Leased Premises Pursuant to a Lease Agreement with the
MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION**

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, inside cover and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Unless the context otherwise requires, capitalized terms not defined herein shall have the meanings given to them in the Trust Agreement (defined below).

This Official Statement (which includes the cover page, inside cover, table of contents and appendices hereto) (the "Official Statement"), provides certain information concerning the sale and delivery of City of Manhattan Beach Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "2012 Certificates"), in an aggregate principal amount of \$ _____ *. The 2012 Certificates are being executed and delivered to (a) refund the City of Manhattan Beach (the "City") \$11,125,000 outstanding Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates") and \$3,240,000 outstanding Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates" and, together with the 2003 Certificates, the "Refunded Certificates"); and (b) pay certain costs of issuance. The 2012 Certificates will evidence and represent the proportionate interests of the registered owners thereof in Lease Payments (the "Lease Payments") to be made by the City as rent for the use of certain real property located in the City generally consisting of (i) City Hall and the real property on which it is located and (ii) a two level subterranean public parking structure, accommodating 460 vehicles and public areas of approximately 40,000 square feet on top of the parking levels (collectively the "Leased Premises"). The Leased Premises will be leased by the City pursuant to a Lease Agreement, dated as of June 1, 2012 (the "Lease Agreement"), between the City, as lessee, and the Manhattan Beach Capital Improvements Corporation (the "Corporation"), as lessor. See "THE LEASED PREMISES" herein. The City currently holds fee title to the Leased Premises, and immediately prior to the execution of the Lease Agreement, the City will lease the Leased Premises to the Corporation, pursuant to a Site and Facilities Lease, dated as of June 1, 2012 (the "Site Lease"), by and between the City and the Corporation.

The 2012 Certificates will be executed and delivered pursuant to the Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), by and among the City, the Corporation and U.S. Bank

* Preliminary; subject to change.

National Association, as trustee (the "Trustee"). Pursuant to an Assignment Agreement, dated as of June 1, 2012 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners, certain of its rights under the Lease Agreement, including all of its rights to receive the Lease Payments from the City under the Lease Agreement, and its right to exercise remedies under the Lease Agreement as may be necessary to enforce payment of the Lease Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 CERTIFICATES."

The City has covenanted under the Lease Agreement that it will take such action as may be necessary to include all Lease Payments in its budgets and to make the necessary appropriations therefor; provided, however, that Lease Payments are subject to complete or partial abatement during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Premises by the City. See "RISK FACTORS — Abatement" herein.

The 2012 Certificates are subject to optional and mandatory prepayment as described herein. See "PREPAYMENT" herein.

THE OBLIGATION OF THE CITY TO PAY THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND DOES NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

For more complete and detailed information, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 CERTIFICATES" herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Included herein are brief summaries of the Trust Agreement, the Lease Agreement, the Site Lease and the Assignment Agreement (collectively, the "Legal Documents"). Such summaries do not purport to be complete or definitive, and reference is made to such documents and report for full complete statements of the contents thereof. Copies of this Official Statement and Legal Documents are available for inspection during the period of the offering from the Underwriter and following delivery of the 2012 Certificates, on file at the office of the Trustee in Los Angeles, California.

THE 2012 CERTIFICATES

The 2012 Certificates will be dated the date of their delivery and principal with respect to the 2012 Certificates will be payable on the dates set forth on the inside cover of this Official Statement. The 2012 Certificates represent undivided beneficial interests of the Owners thereof in the Lease Payments to be made under the Lease Agreement. Interest with respect to the 2012 Certificates will be payable semiannually on each January 1 and July 1, commencing January 1, 2013 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year, comprised of 12 months of 30 days each. Lease Payments are due on each December 15 and June 15 under the Lease Agreement.

The 2012 Certificates will be executed and delivered in book-entry form only and, as and when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the 2012 Certificates. Individual purchases of the 2012 Certificates will be made in book-entry form only. Purchasers of the 2012 Certificates will not receive certificates representing their ownership interests in the 2012 Certificates purchased, Principal and interest payments represented by the 2012 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2012 Certificates. See APPENDIX E - "BOOK-ENTRY ONLY SYSTEM."

Interest will be paid by the Trustee on each Interest Payment Date with regard to each Certificate to the person registered as the Owner thereof at the close of business on the Record Date with respect to such interest payment and shall be paid by check mailed by first class mail to such Owner at such Owner's address as it appears on the Certificate registration books or, upon the written request of an Owner of at least \$1,000,000 in principal amount of the 2012 Certificates received at least fifteen (15) days prior to a Record Date under the Trust Agreement, by wire transfer in immediately available funds to an account in the United States designated by such Owner, irrespective of the cancellation of such Certificate upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date, unless the City shall default in the payment of interest due with respect to such Interest Payment Date. Payment of principal or premium due shall be paid only upon surrender of such Certificate at the Principal Office of the Trustee. In the event of any default in the payment of interest, such defaulted interest shall be payable to the Owner of such Certificate in the manner described in the Trust Agreement. "Record Date" means, with respect to any Interest Payment Date with respect to the 2012 Certificates, except for a payment of defaulted interest, the fifteenth day of the calendar month preceding any Interest Payment Date, whether or not such fifteenth day is a Business Day. With respect to any payment of defaulted interest, a special record date shall be established in accordance with the provisions of this Trust Agreement.

Prepayment

Optional Prepayment. The 2012 Certificates maturing on or after January 1, 20__ are subject to prepayment in whole or in part (in integral multiples of \$5,000) on any date on or after January 1, 20__ from moneys deposited into the Prepayment Fund as a result of the exercise by the City of its option to prepay its Lease Payments, at a prepayment price equal to the Principal Component of Certificates to be prepaid plus accrued interest to the date fixed for prepayment, without premium.

Mandatory Sinking Fund Prepayment. The 2012 Certificates maturing on January 1, 20__, are subject to mandatory sinking fund prepayment prior to maturity at a prepayment price equal to the Principal Component of the 2012 Certificates to be prepaid each year, plus accrued interest with respect thereto to the prepayment date, on January 1 of each year, commencing January 1, 20__, in the Principal Components and on the prepayment dates as follows:

<u>Mandatory Sinking Fund Prepayment Date (January 1)</u>	<u>Principle Component</u>
---	--------------------------------

20__*

*Maturity.

Prepayment from Net Insurance Proceeds. The 2012 Certificates are subject to prepayment on any Interest Payment Date, in whole or in part (in integral multiples of \$5,000), from Net Insurance Proceeds deposited in the Prepayment Fund at least 60 days prior to a Payment Date and credited towards the Prepayment made by the City in accordance with the Lease Agreement, at a prepayment price equal to the Principal Component thereof, together with accrued Interest Component to the date fixed for prepayment, without premium.

Partial Prepayment of Certificates. Upon surrender by the Owner of a Certificate for partial prepayment, payment of such partial prepayment of the Principal Component will be made by check mailed by first class mail to the Owner at his address as it appears on the registration books of the Trustee. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates which shall be of authorized denominations equal in aggregate principal amount to the unprepaid Principal Component of the Certificate surrendered and of the same interest rate and the same maturity. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the City, the Corporation and the Trustee shall be released and discharged from all liability to the extent of such payment.

Effect of Notice of Prepayment. Notice having been given as set forth above and in the Trust Agreement, and the moneys for the prepayment (including the Interest Component accruing through the applicable date of prepayment) having been set aside in the Prepayment Fund, the 2012 Certificates so called shall become due and payable on said date of prepayment, and upon presentation and surrender thereof at the office or offices specified in said notice, said Certificates shall be paid in the amount of the unpaid Principal Component, plus the Interest Component accrued and unpaid to said date of prepayment. If, on said date of prepayment, moneys for the prepayment of all the 2012 Certificates to be prepaid, and premium, if any, together with Interest Component accrued to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then,

from and after said date of prepayment, the Interest Component with respect to such Certificates shall cease to accrue and become payable.

THE LEASED PREMISES

The Leased Premises consists of (i) City Hall and the real property on which it is located, and (ii) the Metlox project.

City Hall is located two blocks from the Pacific Ocean at 1400 Highland Avenue, Manhattan Beach, California, in the heart of the City's downtown district and civic center. It was constructed in 1974 and sits upon an approximately 49,000 square foot parcel of land owned by the City. The two-story building contains approximately 27,400 square feet of office and meeting space, including a large council chamber which hosts most public city meetings. City Hall houses five of the City's eight departments and nearly one hundred full time staff members. The building is of contemporary design and steel and mortar construction and enjoys beach and ocean views and easy accessibility. City Hall lies adjacent to many City owned facilities including public parking lots, and City police and centers of operation.

The Metlox project is located in downtown Manhattan Beach and consists of a two level subterranean public parking structure, accommodating 460 vehicles and public areas of approximately 40,000 square feet on top of the parking levels. The public areas are landscaped and developed with public amenities including benches, fountains, and public artwork. Metlox was completed in 2004.

PLAN OF REFUNDING

The City will apply a portion of the proceeds of the sale of the 2012 Certificates, together with other lawfully available funds designated by the City, to establish separate irrevocable escrow funds to refund and defease all the outstanding 2003 Certificates and 1996 Certificates described below pursuant to the respective legal documents under which the 2003 Certificates and 1996 Certificates were executed and delivered. The 2003 Certificates were executed and delivered to provide funds to acquire and construct a two-level downtown subterranean public parking structure and outdoor plaza, fund a reserve and certain capitalized interest, and pay costs of issuance with respect to the 2003 Certificates. The 1996 Certificates were issued to pay the cost of improvements to the City's water and wastewater systems, fund a reserve fund, and pay costs of issuance with respect to the 1996 Certificates.

Upon the execution and delivery of the 2012 Certificates, a portion of the proceeds thereof shall be applied to the purchase of certain direct obligations of the United States of America which will satisfy the City's payment obligations with respect to the 2003 Certificates and 1996 Certificates, respectively, until their payment or prepayment dates. These direct obligations shall be deposited in separate escrow accounts held by U.S. Bank National Association, as escrow agent for the 2003 Certificates and 1996 Certificates (the "Escrow Agent") under separate escrow agreements (the "Escrow Agreements") that will require the Escrow Agent to apply the principal of and interest on such obligations, together with other moneys held by the Escrow Agent, (i) to the payment or prepayment of the 2003 Certificates on their respective payment or prepayment dates set forth in the table below, and (ii) to the payment or prepayment of the 1996 Certificates on or about July __, 2012.

The obligations of the United States of America so deposited with the Escrow Agent into the separate escrow accounts for the 2003 Certificates and the 1996 Certificates will bear interest at such

rates and will be scheduled to mature at such times and in such amounts that, when paid in accordance with their terms, together with any other funds held by the Escrow Agent under the Escrow Agreement, sufficient moneys will be available to make full and timely payment of the principal of and interest evidenced and represented by the 2003 Certificates and 1996 Certificates prior to their respective scheduled payment or prepayment dates and to pay the prepayment price of the full principal amount which remains outstanding on such prepayment date. For information on mathematical verification for the sufficiency of scheduled payments with respect to such obligations of the United States of America and other funds held by the Escrow Agent to make such payments, see "VERIFICATION OF MATHEMATICAL COMPUTATIONS." Upon such irrevocable deposit with the Escrow Agent and the receipt by the Escrow Agent of irrevocable escrow instructions from the City, the 1996 Certificates and the 2003 Certificates will be defeased and the owners of the 1996 Certificates and the 2003 Certificates will no longer be entitled to the benefits of the legal documents under which they were executed and delivered.

**2003 Certificates of Participation
(Metlox Public Improvements)
Base CUSIP[†] Number: 562765**

Maturity Date (January 1)	Principal Amount	CUSIP Number[†]	Maturity or Prepayment Date
2013	\$325,000	BC0	January 2, 2013
2014	335,000	BD8	January 2, 2013
2015	350,000	BE6	January 2, 2013
2016	365,000	BF3	January 2, 2013
2017	380,000	BG1	January 2, 2013
2018	400,000	BH9	January 2, 2013
2019	415,000	BJ5	January 2, 2013
2020	435,000	BK2	January 2, 2013
2021	455,000	BL0	January 2, 2013
2022	480,000	BM8	January 2, 2013
2023	500,000	BN6	January 2, 2013
2033	6,685,000	BP1	January 2, 2013

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

**1996 Certificates of Participation
(1996 Water and Wastewater Improvement Project)
Base CUSIP Number[†]: 562765**

Maturity Date (September 1)	Principal Amount	CUSIP Number[†]	Prepayment Date*
2015	\$600,000	AQ0	
2020	985,000	AR8	
2026	1,655,000	AS6	

* Preliminary; subject to change. Redemption of 1996 Certificates is expected to occur on or about 30 days after the date of execution and delivery of the 2012 Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2012 Certificates and other available amounts are expected to be applied approximately as set forth below:

<u>Sources</u>	\$
Principal Amount of Certificates	
[Less Original Issue Discount][Plus Original Issue Premium]	\$ _____
Available Amounts from 2003 Certificates	
Available Amounts from 1996 Certificates	
Total Sources	\$ _____
<u>Uses</u>	
Deposit to the 2003 Escrow Fund	\$
Deposit to the 1996 Escrow Fund	
Deposit to Delivery Costs Fund ⁽¹⁾	\$ _____
Total Uses	\$ _____

(1) Delivery costs include, without limitation, special counsel fees, financial advisor fees, rating agency fees, initial trustee and escrow agent fees and expenses, legal, printing, underwriter's discount and other financing costs.

SECURITY AND SOURCES OF PAYMENT FOR THE 2012 CERTIFICATES

General

Each Certificate represents an undivided proportionate interest in the Lease Payments to be made by the City to the Corporation. The Corporation, pursuant to the Assignment Agreement, will assign and set over to the Trustee all of its rights in the Lease Agreement including, but not limited

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to, all of the Corporation's rights to receive and collect the Lease Payments, Prepayments, Additional Payments and any other amounts required to be paid pursuant to the Lease Agreement or pursuant to the Trust Agreement, excepting only its right to indemnification. All Lease Payments and Prepayments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments and Prepayments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Lease Payments, Prepayments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund or the Prepayment Fund, as appropriate.

The Lease Payments have been pledged to and shall be used for the punctual payment of the Interest Component and the Principal Component, and the Lease Payments shall not be used for any other purpose while any of the 2012 Certificates remain outstanding. In the Trust Agreement, the City covenants that such pledge will constitute a first and exclusive lien on the Lease Payments in accordance with such Trust Agreement. Subject to the abatement of Lease Payments, the City has covenanted under the Lease Agreement that so long as the Leased Premises, or a portion of such Leased Premises with a fair market value in excess of the aggregate Principal Components under such Lease Agreement then remaining unpaid, are available for the City's use, the City will take such action as may be necessary to include all Lease Payments and Additional Payments due under such Lease Agreement in its budgets and to make the necessary appropriations for all such Lease Payments and Additional Payments. The Corporation and the City, as their interests may appear, have granted to the Trustee, for the benefit of the Owners, a lien on and a security interest in all moneys in the funds and accounts held by the Trustee under the Trust Agreement, including without limitation, the Lease Payment Fund, the Prepayment Fund and the Net Insurance Proceeds Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified in the Trust Agreement and in the Lease Agreement.

THE OBLIGATION OF THE CITY TO PAY THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE, OR OF ANY OF ITS POLITICAL SUBDIVISIONS, AND DOES NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Release or Substitution of Leased Premises

The Lease Agreement provides that the City has the right to substitute alternate real property or improvements for the Leased Premises, release existing property or add additional real property or equipment to the Leased Premises, upon written notice of such substitution or addition to all rating agencies, if any, then rating the 2012 Certificates and compliance with other requirements of the Lease Agreement. See APPENDIX B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT."

Source of Lease Payments

Under the terms of each Lease Agreement, the Corporation will lease the Leased Premises to the City, and the City is required to make the Lease Payments semiannually to the Trustee, plus

Additional Payments as necessary to pay all fees, costs and expenses of the Corporation in its performance of the Lease Agreement and Trust Agreement, including fees and expenses of the Trustee in performance of its duties under the Trust Agreement. The City will pay to the Corporation, its successors and assigns, as rental for the use and possession of each of the Leased Premises, the Lease Payments, each comprised of a Principal Component and a Interest Component in the amounts specified in the Lease Agreement, as due and payable on the fifteenth day of each December and June or, if any such day is not a Business Day, then the next succeeding Business Day (each, a "Lease Payment Date"). Such payments are intended to be sufficient in both time and amount to pay when due the portion of the Principal Component and Interest Component evidenced and represented by the 2012 Certificates and due on the next Payment Date.

The Lease Payments will be paid from any source of legally available funds of the City, and the City has covenanted that the City will take such action as may be necessary to include all such Lease Payments due under the Lease Agreement in its budgets and to make the necessary appropriations for all such Lease Payments, which covenants of the City shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants made by the City under such Lease Agreement.

The Trustee will establish a special fund designated as the "City of Manhattan Beach Series 2012 Lease Payment Fund" (the "Lease Payment Fund"). There will be deposited into the Lease Payment Fund certain deposits received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Lease Agreement or pursuant to the Trust Agreement. All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the 2012 Certificates and amounts on deposit in the Lease Payment Fund not required for the purpose of paying the Principal Component and the Interest Component then due and payable will be credited toward the Lease Payment due on the next succeeding Lease Payment Date. So long as any Certificates are Outstanding, neither the City nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

Except as provided in the Trust Agreement with respect to application of investment earnings and reimbursement provisions, all amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Principal Component and the Interest Component as the same shall become due and payable, in accordance with the Trust Agreement.

Except as provided in the previous paragraph, the Trustee will apply moneys on deposit in the Lease Payment Fund in the following order of priority:

(a) On or before each Payment Date, an amount sufficient to pay the Interest Component due and payable on such date shall be set aside by the Trustee and mailed (or sent by wire transfer, as appropriate) to the Owners of the 2012 Certificates;

(b) On or before each Principal Payment Date, an amount sufficient to pay the Principal Component coming due and payable on the 2012 Certificates on such date shall be set aside; and

(c) To the extent that Prepayments are made on each date set for prepayment of the 2012 Certificates in accordance with the Trust Agreement, the amount prepaid shall be deposited into the

Prepayment Fund to be applied for the prepayment of the 2012 Certificates in accordance with the Trust Agreement.

Abatement of Lease Payments

The obligation of the City to make Lease Payments is subject to abatement in the event of condemnation, damage or destruction of the Leased Premises, or if there is substantial interference with the use and possession of the Leased Premises by the City. The amount of such abatement shall be determined by the City such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Leased Premises not condemned, damaged or destroyed. Such abatement shall commence on the date of condemnation, damage or destruction and shall end with the substantial completion of the replacement or work of repair. Except as provided in the Trust Agreement, in the event of any such condemnation, damage or destruction, the Lease Agreement shall nonetheless continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such condemnation, damage or destruction. See "RISK FACTORS — Abatement" and APPENDIX B - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Lease Agreement."

No Reserve Fund

No reserve fund has been established with respect to the 2012 Certificates.

Lease Payments

Lease Payments are required to be made by the City to the Trustee under the Lease Agreement on the Lease Payment Date, which are intended to be sufficient in both time and amount to pay when due the portion of the Principal Component and Interest Component evidenced and represented by the 2012 Certificates and due on the next Payment Date.

The Trust Agreement requires that the Lease Payments be deposited in the Lease Payment Fund. All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the 2012 Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as set forth in the Trust Agreement.

There shall be deposited into the Lease Payment Fund all Lease Payments received by the Trustee and any other moneys required to be deposited therein pursuant to the Lease Agreement or pursuant to the Trust Agreement. On or prior to each June 1, and December 1, the Trustee shall notify the City of the amounts on deposit in the Lease Payment Fund to be credited toward the Lease Payments due on the next succeeding Lease Payment Date.

Additional Certificates

Subject to compliance with the requirements of the Trust Agreement, the City, the Corporation and the Trustee may by execution of a Supplemental Trust Agreement and without the consent of the Owners, provide for the execution and delivery of Additional Certificates in one or more Series. The Trustee may execute and deliver to or upon the request of the Corporation such Additional Certificates, in such principal amounts as shall reflect the additional principal components

of the Lease Payments and the proceeds of such Additional Certificates may be applied to pay the project costs of any additional project. Such Additional Certificates may only be executed and delivered upon compliance by the City with the provisions of the Trust Agreement, and subject to specific conditions set forth therein. See APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Any Additional Certificates will be on a parity with, and each Owner thereof will have the same rights upon an event of default as the Owner of, any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Additional Payments

Throughout the Term of the Lease Agreement, the City will also make Additional Payments. Additional Payments encompass all administrative costs of the Corporation relating to the Leased Premises or the execution, sale and delivery of the 2012 Certificates, including, without limitation, all expenses, compensation and indemnification of the Trustee, taxes, if any, payable by the Corporation as a result of its ownership of the Leased Premises, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the 2012 Certificates or of the Trust Agreement or to defend the Corporation and its directors, officers and employees in connection therewith. Additional Payments are payable by the City directly to the person or persons to whom such amounts are payable when due or within ten days after notice in writing from the Trustee.

Insurance

The Lease Agreement requires that the City shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, a commercial general liability insurance policy or policies in protection of the City and the Corporation, their respective officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. Said policy or policies shall provide coverage in the minimum liability limits of \$5,000,000 for personal injury or death of each person. Deductibles, if any, shall be in such amounts as may reasonably be obtained by a city of comparable size to the City, in the same county as the City, insuring risks comparable to those that are the subject of said insurance coverage. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City.

The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid, including, where appropriate, the application of Net Insurance Proceeds with respect to the prepayment of the Lease Payments as provided in the Lease Agreement.

The Lease Agreement also provides the City shall maintain workers' compensation insurance as required under the laws of the State of California. Workers' compensation insurance may, to the extent provided by law, be maintained in the form of self-insurance.

The Lease Agreement requires that the City maintain or cause to be maintained, throughout the Term of the Lease Agreement, "All Risk" property insurance, in an aggregate amount at least

equal to the aggregate Principal Component of Certificates at that time Outstanding except that such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City, and may be maintained in the form of self-insurance by the City. The Net Insurance Proceeds of each policy or coverage shall be applied as provided in accordance with the Lease Agreement and the Trust Agreement.

In addition, the City covenants that it shall maintain or cause to be maintained rental interruption insurance in an amount not less than the maximum remaining scheduled Lease Payments in any consecutive two-year period, to insure against loss of use of either Leased Premises caused by perils covered by the insurance required in the paragraph immediately above. Such insurance may be subject to a deductible clause of not to exceed \$10,000 and may be maintained as part of or in conjunction with any other rental interruption insurance carried by the City but may not be maintained in the form of self-insurance. The Net Insurance Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited toward the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

The City shall obtain a CLTA title insurance policy or policies insuring the leasehold interest established under the Lease Agreement, in an aggregate amount no less than the aggregate Principal Component of the 2012 Certificates.

The City also covenants that it shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. The City will deliver to the Corporation and the Trustee in the month of December in each year a certificate to the effect that the requirements set forth above have been satisfied.

Lease Payment Schedule

Following is the Lease Payment schedule with respect to the 2012 Certificates:

Lease Payment Date	Principal Component	Interest Component	Total
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THE CITY

History

The City of Manhattan Beach is a general law city located in the South Bay area of Los Angeles County on the shore of the Pacific Ocean, surrounded by El Segundo to the north,

Hawthorne, Lawndale and Redondo Beach to the east and Hermosa Beach to the south. The City was incorporated on December 12, 1912.

The City encompasses approximately 2,492 acres or 3.9 square miles, which is essentially fully developed consisting primarily of residential development, with commercial development along the major arterials and some light industrial development in the northeast portion of the City. The terrain is characterized by rolling hills that slope to the Pacific Ocean. Elevations vary from sea level to approximately 200 feet above sea level.

General Economic Condition and Outlook of the City

General Fund. Fiscal Year 2010-11 ended with General Fund revenues exceeding expenditures by \$2.26 million. At time of adoption in June 2011, the Fiscal Year 2011-12 General Fund budget projected revenues of \$51,170,408 and expenditures of \$50,657,495, resulting in an estimated year-end surplus of \$512,913. Revenues were projected to increase \$1,896,385 or 3.9%, while expenditures were projected to increase by \$1,403,269 or 2.9%, when compared to the prior year's budget. Increases in Sales Tax, Business License Tax, Property Tax, Building and Planning fees, as well as Operating Service Transfers (cost recovery from other funds) all contributed to the projected rise in revenue. Increased retirement costs as well as Workers Compensation costs contributed to the expenditure increase.

As of May 2012, the Fiscal Year 2011-12 General Fund is projected to have a year-end surplus (revenues in excess of expenditures) of approximately \$2.1 million. This estimated surplus is primarily due to projected revenues exceeding original estimates by \$1.6 million. Notable revenue categories include: Property Tax, expected to exceed budget by \$308,400 (1.6%); Taxes and Assessments by \$581,958 (3.7%); Licenses and Permits by \$225,774 (18.6%); and Service Charges by \$277,374 (5.3%).

For the coming Fiscal Year 2012-13, the proposed General Fund budget projects revenues of \$53,098,918; an increase of \$1.93 million (3.7%) over the prior year's budget, and \$368,707 (0.7%) over Fiscal Year 2011-12 full year estimates. Property Tax is expected to increase slightly by 1% over Fiscal Year 2011-12 estimates, reflecting the continued weak housing market and pricing pressure. Inability to collect support costs from the Storm Water fund due to reduced available fund balances (and competing capital needs) eliminates \$375,000 in General Fund revenue in Fiscal Year 2012-13. Building and Planning fees are expected to continue to improve along with building activity, rising by a combined \$85,000 (4.8%) over Fiscal Year 2011-12 estimates. Sales tax is projected to improve by 3.8% (\$317,000) in Fiscal Year 2012-13.

TABLE 1
Fiscal Year 2013 ADOPTED GENERAL FUND BUDGET
(As of June 6, 2012)

	<i>FY 2012 Adopted</i>	<i>FY 2012 Estimate</i>	<i>FY 2013 Adopted</i>	<i>Variance of FY 2013 from</i>			
				<i>FY 2012 Adopted</i>		<i>FY 2012 Actual Estimate</i>	
				\$	%	\$	%
REVENUES							
Property Tax	\$ 19,753,700	\$ 20,062,099	\$20,270,305	\$516,605	2.6%	\$208,206	1.0%
Other Taxes & Assessments	15,606,494	16,188,452	16,623,763	1,017,269	6.5%	435,311	2.6%
Licenses & Permits	1,212,060	1,437,834	1,492,860	280,800	23.2%	55,026	3.7%
Fines	2,924,500	2,909,489	2,940,500	16,000	0.5%	31,011	1.1%
Interests & Rents	2,639,952	2,262,620	2,708,362	68,410	2.6%	445,742	16.5%
From Other Agencies	291,359	452,281	211,000	(80,359)	(27.6%)	(241,281)	(114.4%)
Services	5,232,994	5,510,368	5,636,150	403,156	7.7%	125,782	2.2%
Interfund Charges & Transfers	3,288,499	3,288,499	2,913,338	(375,161)	(11.4%)	(375,161)	(12.9%)
Miscellaneous	<u>220,850</u>	<u>618,569</u>	302,640	81,790	37.0%	(315,929)	(104.4%)
TOTAL REVENUES	<u>\$51,170,408</u>	<u>\$52,730,211</u>	<u>\$53,098,918</u>	<u>\$1,928,510</u>	<u>3.8%</u>	<u>\$368,707</u>	<u>0.7%</u>
EXPENDITURES							
Personnel Services	35,763,535	\$35,333,760	\$36,320,304	556,769	1.6%	\$986,545	2.7%
Materials & Services	13,100,710	13,761,000	14,740,964	1,640,254	12.5%	979,964	6.6%
Capital Outlay	-	12,082	87,001	87,001	-	74,919	86.1%
Debt Service	1,793,250	1,531,107	1,825,825	32,575	1.8%	294,718	16.1%
Interfund Transfers	-	<u>18,445</u>	20,163	20,163	-	1,718	8.5%
TOTAL EXPENDITURES	<u>50,657,495</u>	<u>50,656,394</u>	<u>52,994,257</u>	\$2,336,762	4.6%	\$2,337,863	4.4%
SURPLUS/(DEFICIT)	<u>\$ 512,913</u>	<u>\$ 2,073,817</u>	<u>\$ 104,661</u>	<u>(\$408,252)</u>	<u>(79.6%)</u>	<u>(\$1,969,156)</u>	<u>(1881.5%)</u>

Total full-time employees for Fiscal Year 2012-13 is 268.

Positive variance indicates the Fiscal Year 2012-13 Adopted is higher than the Fiscal Year 2012 Adopted or Estimate. Negative variance indicates the Fiscal Year 2012-13 Adopted is lower than the Fiscal Year 2011-12 Adopted or Estimate.

Adopted expenditures for Fiscal Year 2012-13 total \$52,994,257. This is a 4.6% increase over the prior year budget, and 4.4% from estimated actuals. The addition and/or restoration of full time staff positions, some of which were previously eliminated (positions were vacant) in order to balance the budget, have been included in the Fiscal Year 2012-13 adopted budget. These include a Police Lieutenant, two Police Officers, a Police Services Officer (Jailer) and one Associate Planner. Materials and services costs are increasing due to increased emergency dispatch costs, the reclassification of certain personnel from employee to contractor (thus moving the expenditure from

Personnel Services to Materials and Services), and an increase in the City Council's Contingency Fund which provides a ready source of funding for unplanned expenditures (fund totals \$150,000 in Fiscal Year 2012-13).

The Fiscal Year 2012-13 adopted budget includes a vacancy factor for full-time staffing of \$750,000 in the General Fund, in recognition of the fact that there are times throughout the year that positions are vacant through attrition and retirements, and that salary savings are achieved during those vacancies. This practice reduces funds allocated for staffing, but may result in insufficient funding if such vacancies do not occur.

The City Council by policy maintains reserves equal to 20% of General Fund expenditures. For Fiscal Year 2012-13, the amount reserved totals \$10.6 million. Additionally, the City Council has reserved an additional \$4 million for economic uncertainty. These reserves equal 28% of estimated expenditures in Fiscal Year 2012-13.

Municipal Government

The City Council, consisting of five members who are elected at large for four-year terms, is comprised of the following individuals:

<u>Title</u>	<u>Member</u>	<u>Term Expires</u> <u>March</u>
Mayor	Wayne Powell	March 2013
Mayor Pro Tem	David Lesser	March 2015
Councilperson	Amy Howorth	March 2015
Councilperson	Richard Montgomery	March 2013
Councilperson	Nicholas W. Tell	March 2013

Appointed staff members serving the City are

David N. Carmany	City Manager
Quinn Barrow	City Attorney
Bruce Moe	Finance Director
Liza Tamura	City Clerk

Population and Employment

The City has a population of approximately 36,600 residents and is basically "built-out." A substantial number of City residents commute to work outside of the City.

Major employers in the City include Northrop Grumman, Kinecta Federal Credit Union, Target Corporation, the Manhattan Beach Unified School District, Skechers USA Inc., the City, Macy's West LLC, Fry's Electronics Inc., Marriott- HMC Interstate, Ralphs Grocery Co., , Bristol Farms, Olive Garden, Houston's Restaurants Inc. and 24 Hour Fitness.

Construction

The following table shows residential and commercial construction activity in the City for each of the last five fiscal years:

TABLE 2
City of Manhattan Beach
Construction Values
(Fiscal Years 2004-12)

Fiscal Year	Residential Construction		Commercial Construction	
	Number of Permits	Total Value	Number of Permits	Total Value
2004	642	\$41,257,819	87	\$17,702,168
2005	1,137	70,768,580	132	15,282,986
2006	1,225	73,623,622	146	6,301,541
2007	1,122	73,059,760	136	7,837,573
2008	943	56,178,789	199	12,302,857
2009	776	31,098,756	300	14,671,160
2010	857	38,900,854	397	15,175,420
2011	1,023	58,150,910	297	12,388,604
2012*	822	42,632,384	325	18,569,118

Source: City of Manhattan Beach Community Development Department.

* July-March

Taxable Transactions

Revenues from taxable sales have ebbed and flowed with the economy over the last five years. Ten businesses generate approximately 50% of the City's sales tax revenues. According to the City, the most consistent revenue generators are Apple Computer, Barnes & Noble, Beverages & More, California Pizza Kitchen, Chevron, CVS Pharmacy, Dewitt Petroleum, Frys Electronics, Houstons and Kwik Gas. The following table sets forth the taxable sales in the City for the last five fiscal years for which data is available.

TABLE 3
City of Manhattan Beach
Taxable Sales
(Fiscal Years 2006-10)
(In Thousands)

	2006	2007	2008	2009	2010
Apparel stores	\$ 73,438	\$ 72,648	\$ 67,185	\$ 60,141	\$ 64,857
Gen. merchandise stores	114,830	118,872	113,037	104,604	101,306
Food stores	36,323	36,032	36,842	37,107	36,693
Eating and drinking places	135,058	137,878	142,590	139,095	143,709
Bldg. materials/farm tools	3,229	2,994	2,592	1,975	1,454
Auto dealers & auto supplies	76,340	78,480	73,144	63,329	57,980
Service stations	34,574	33,605	37,505	26,237	29,079
Other retail stores	219,356	222,590	215,166	199,196	219,337
All Other Outlets	123,996	124,616	120,420	102,005	172,638
Total All Outlets	\$ 817,144	\$ 827,715	\$ 808,481	\$ 733,689	\$ 827,053
City direct sales tax rate	1.00%	1.00%	1.00%	1.00%	1.00%

Source: California State Board of Equalization.

Transportation

The City is located 3 miles south of the Los Angeles International Airport (“LAX”). The City is served by Los Angeles County Metropolitan Transportation Authority (“MTA”) buses. MTA’s train service, Metrolink is within 2 miles of the City.

The City offers a shared-ride, curb to curb bus service for senior (age 55 and older) and disabled citizens called Dial-a-Ride. The City has approximately 120 miles of paved streets.

Public Utilities

Electrical service is provided by Southern California Edison; Southern California Gas provides natural gas. The City is served by Verizon for communications purposes and Time Warner for cable.

Water and wastewater services are provided by the City. The City’s water system currently consists of four pump stations, two storage reservoirs, one elevated storage tank, two water supply wells and approximately 112 miles of water distribution pipelines. The City wastewater system includes gravity lines, manholes, pumping stations and force mains and serves the majority of the area within the City.

Education

Approximately 6,660 of the City’s students are served by the Manhattan Beach Unified School District presided over by a separately elected board. The public school system includes five elementary schools, one middle school and one high school. There are also five private elementary schools within the City.

Community Facilities

There are forty acres of recreational beach area and a pier along the shoreline of the City. Two community centers are available within the City. The Parks & Recreation Department provides an array of facilities that include athletic fields, tennis, paddle tennis, volleyball and basketball courts, jogging and bike paths, swimming pool, and dozens of sports programs and fitness classes. Throughout the City there are 11 parks providing 80 acres of parkland including 18 ball fields, 5 batting cages, 18 tennis courts (including 2 paddle tennis courts), 4 racquetball courts, 3 basketball courts, 2 par golf courses, a 1.7-mile jogging path, a 9-hole golf course and a large recreational pool. At Mira Costa High School, in addition to athletic fields and tennis courts, facilities available for public use include a gymnasium and track. Also located within the City is a 2-mile walking and jogging path that runs parallel to a bike path along the beach. Stretching along the beach spanning north and south of the Manhattan Beach Pier are over 150 volleyball courts which are also available for private or public use. The County of Los Angeles maintains the beaches and one library.

Public Safety

The City provides police and fire services to the community. There are two fire stations within the City and 30 sworn positions. There is one police station serving the City with 65 sworn personnel.

Street and highway maintenance is under the supervision of the City's Public Works department. Building inspection and code enforcement services are provided by the City. The City currently has 310 part-time, exempt or full-time employees.

City Financial Information

Fund Types. The City maintains three main governmental fund types into which its revenues are deposited: General Fund, Special Revenue Fund and Capital Projects Fund.

General Fund. The General Fund is the general operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital improvement costs which are not paid through other funds.

Special Revenue Funds. The Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law or administrative regulation to be accounted for in a separate fund.

Capital Projects Funds. The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Revenue Available for Lease Payments. The City will make Lease Payments on each Interest Payment Date from moneys held in the General Fund and other available revenues, including certain parking revenues and capital project fund revenue. The General Fund accounts for resources traditionally associated with governments which are not required to be accounted for in another fund. See "APPENDIX A - CITY OF MANHATTAN BEACH COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011" herein. See "RISK FACTORS -

Additional Obligations of the City.” General Fund revenues for fiscal years ended June 30, 2007 through 2011, are shown below, compiled from the City’s audited financial statements.

While the City is obligated to make payments due under the Lease Agreement from the General Fund, the City intends to use revenues of the City’s water and wastewater system to pay the portion of Base Rental Payments attributable to the refunding of the 1996 Certificates, and intends to use certain parking revenues to pay the portion of Base Rental Payments attributable to the refunding of the 2003 Certificates.

The following table shows the City’s General Fund revenues by source for each of the last five fiscal years:

TABLE 4
City of Manhattan Beach
General Fund Revenues

<u>Source:</u>	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Property Tax	\$ 17,116,975	\$ 18,567,451	\$ 19,930,492	\$ 20,006,557	\$ 19,791,425
Other Taxes (Sales, Hotel, Business License)	15,993,673	16,278,198	15,044,017	14,648,932	15,834,382
Licenses and Permits (Building, Construction, Film Permits)	1,639,680	1,408,697	1,136,934	1,196,714	1,281,400
Fines (Parking Citations, Vehicle Code Fines)	2,025,694	2,047,187	2,472,306	2,871,972	2,757,132
Interest and Rents (including Ground Leases)	3,655,099	3,897,287	3,214,403	2,250,729	2,569,397
Received From Other Agencies (Vehicle License Fees, Grants)	775,941	571,403	415,905	430,453	499,736
Service Charges (Plan Check Fees, P&R Class, Ambulance Fees)	4,542,896	4,638,335	4,590,854	4,799,259	5,818,102
Interfund Charges (Admin Service Charge)	2,706,096	2,829,644	2,928,910	3,035,600	3,025,305
Miscellaneous	384,166	1,672,904	273,099	164,104	450,921
Total	<u>\$ 48,840,221</u>	<u>\$ 51,911,106</u>	<u>\$ 50,006,920</u>	<u>\$ 49,404,320</u>	<u>\$ 52,027,800</u>

Source: City of Manhattan Beach Comprehensive Annual Financial Reports

The City’s General Fund revenues showed improvement from the prior year, particularly in Other Taxes (sales, transient occupancy, business license, etc.), Charges for Services (plan check fees, ambulance fees, parks and recreation fees, etc.) and Interest and Rents. The following table shows a breakdown of particular tax revenues for the last two fiscal years.

TABLE 5
City of Manhattan Beach
General Fund Tax Revenues
Fiscal Year Ended June 30

<u>Source:</u>	<u>2010</u>	<u>2011</u>
Property Tax, levied for general purposes	\$20,006,558	\$19,791,425
Transient Occupancy Tax	3,174,319	3,229,823
Sales Tax	7,646,109	8,148,688
Franchise Taxes	1,220,171	1,289,443
Business License Fee	2,783,641	2,844,066
Other Taxes	356,367	473,275
Motor Vehicle in Lieu	108,815	118,296
Homeowner Property Tax	<u>150,229</u>	<u>148,451</u>
Total	\$35,446,229	\$36,043,467

Source: City of Manhattan Beach Comprehensive Annual Financial Reports

Budget Process. The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June the following year. Budget requests are submitted by departmental managers to the City Manager for review. The City Manager, the Finance Director and department heads meet to review the requests and establish program objectives for the coming year. The City Manager then prepares his recommendations to the City Council and the Finance Director submits the financing plan to fund the recommended budget.

The City Council usually receives the proposed budget by the second week of May and thereafter schedules two or three public study sessions to review the recommendations with the City Manager and department heads. Tentative approvals are made by the City Council, pending determination of final fund balance and revenue figures. The Finance Director usually submits the City Council approved budget for final public hearing and adoption in early June.

Early in the calendar year, the finance department presents a mid-year review of the budget performance. At that time, mid-year results are presented to the City Council with a special emphasis placed on the financial performance to date and the state of the economy. A projection of fund balances through the end of the fiscal year is presented as well as key performance measures to assist in tracking operational goals.

From the effective date of the budget, the several amounts adopted as expenditures become appropriated to the several departments, offices and agencies for the projects and purposes named. All appropriations (excepting appropriations for capital projects which are in effect until the project is completed) lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by an ordinance adopted with a majority vote of the members of the Council.

At the beginning of each fiscal year the City Council employs an independent certified public accounting firm which, at such times as specified by the City Council, but not less than annually, examines the financial statements. As soon as practicable after the end of each fiscal year, these financial statements and an accountant's report are submitted by the accounting firm to the City Council.

City Assessed Valuation. The County assesses property values and collects and distributes secured and unsecured property taxes to the County, cities, school districts- and other special districts within the County area.

Set forth in the table below is a listing of the assessed valuations on taxable property in the City of Manhattan Beach for fiscal years ending 2002 through 2012. For Fiscal Year 2011-12, the County reported an increase in the citywide assessed valuation to \$12,190,853,653 - an increase of 2.3% from the previous fiscal year.

TABLE 6
City of Manhattan Beach
Assessed Value and Estimated Actual Value of Taxable Property

Fiscal Year Ended June 30	Residential Property	Commercial Property`	Industrial Property	Other Property	Total Taxable Assessed Value
2002	\$5,263,285,308	\$491,561,315	\$218,443,219	\$391,885,116	\$6,365,174,958
2003	5,738,636,117	547,721,638	245,153,830	391,829,851	6,923,341,436
2004	6,303,521,834	577,301,448	247,401,995	426,209,729	7,554,435,006
2005	6,906,891,506	631,502,660	260,299,961	418,106,396	8,216,800,523
2006	7,676,737,831	708,333,276	265,885,057	429,932,918	9,080,889,082
2007	8,574,425,369	739,118,781	219,928,225	391,992,459	9,925,464,834
2008	9,424,677,494	794,484,003	224,326,781	417,862,475	10,861,350,753
2009	10,133,650,383	841,096,243	280,998,547	442,154,427	11,697,899,600
2010	10,311,669,005	868,380,495	286,618,511	405,009,100	11,871,677,111
2011	10,339,491,445	857,048,245	272,285,842	444,776,787	11,913,602,319
2012*	10,675,751,820	900,445,878	355,749,068	258,906,887	12,190,853,653

Note: Secured property is property secured by the property as opposed to the property's owner. Unsecured property is property secured by the property owner. Secured property generally includes land and improvements. Unsecured property generally includes business property, boats, permanent (unlicensed) mobile homes, and other movable, assessable assets.

* Preliminary data

Source: Los Angeles County Auditor-Controller.

Tax Levies and Delinquencies. The basic tax rate for all taxing entities within a particular tax code area is \$1 per \$100 of assessed valuation in accordance with Article XIII A of the State Constitution. To this may be added whatever tax rates are necessary to meet debt service on indebtedness approved by the voters.

The City uses the services of the County for the assessment and collection of taxes. City taxes are collected at the same time and on the same tax rolls as are County, school district and special district taxes.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." Taxes on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year and become delinquent after December 10 and April 10 respectively. Taxes on unsecured property are assessed

and payable March 1 and become delinquent on August 31 in the next fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% of the delinquent taxes per month begins to accrue beginning November 1 of the fiscal year.

Commencing in June 1982, a 10% penalty was added to delinquent taxes which have been levied on property on the secured roll (a 6% penalty is charged on property taxes that became delinquent prior to June 1982). In addition, property on the secured roll with respect to which taxes are delinquent is declared to -be tax-defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more the tax-defaulted property is declared to be subject to the County Tax Collector's power of sale and may be subsequently sold within two years by the County Tax Collector.

Major Property Taxpayers. The following table sets forth a list of the top ten principal taxpayers within the City as of June 30, 2011, the net valuation of their property and the percentage which such taxpayer's property represents of the total assessed valuation of the taxable property in the City.

TABLE 7
City of Manhattan Beach
Principal Property Taxpayers
as of June 30, 2011

Taxpayer	Category	Net Value	Percentage of Total Assessed Valuation
Northrop Grumman Space & Mission	Aerospace and Electronics	\$ 261,086,588	2.19%
Reef America Reit II Corporation BBB	Mall	156,391,089	1.31%
CRP MB Studios LLC	Movie, Television and Media Studios	140,760,000	1.18%
Wells REIT II Manhattan Towers LLC	Office Buildings	98,994,084	0.83%
Parstem Realty Company Inc.	Office and Manufacturing Facilities	65,054,679	0.55%
Host Marriott Corporation Interstate	Marriott Hotel	62,264,619	0.52%
Sketchers USA Inc.	Corporate Headquarters	35,055,888	0.29%
RIMB LLC	Residence Inn Hotel	33,748,288	0.28%
St. Paul Properties Inc.	Retail and Office Centers	26,764,004	0.22%
Continental 1500 Rosecrans LLC	Retail and Office Centers	25,177,275	0.21%
Top Ten Total		<u>\$ 905,296,514</u>	<u>7.6%</u>
City Total		<u>\$ 11,913,602,319</u>	

Source: HDL Coren Cone

Financial Statements. All governmental funds, including the General Operating Funds and, the Capital Projects Funds, are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

The City employs an independent certified public accounting firm to annually audit the City's financial statements in conformity with generally accepted accounting principles for governmental entities and to review internal financial controls. As a matter of policy the City intends to engage new auditors every three to five years to assure independence and objectivity while maintaining the highest levels of professional standards. The audited Comprehensive Annual Financial Report of the City has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for fiscal year 2010 and has been awarded the Award for Outstanding Financial Reporting by the California Society of Municipal Financial Officers for over ten years. The annual audit report is generally available by February 1 of the succeeding fiscal year.

TABLE 8
City of Manhattan Beach
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Fiscal Years ended June 30, 2007 through June 30, 2011

	2007	2008	2009	2010	2011
Revenues					
Taxes and assessments	\$ 35,261,246	\$ 36,933,447	\$ 36,839,471	\$ 36,582,239	\$ 37,697,637
Licenses, fees and permits	1,686,922	1,463,207	1,200,529	1,200,347	1,289,183
Charges for services	7,812,110	8,013,155	8,202,164	8,291,275	9,396,606
Fines and forfeitures	2,153,078	2,169,402	2,400,483	2,984,868	2,867,072
Contributions from property owner	8,498,306	-	-	-	-
Intergovernmental	3,007,764	2,147,817	2,072,660	2,638,044	1,749,382
Interest and Rents	3,845,001	3,939,191	3,607,997	2,344,105	2,723,666
Net change fair value investments	353,642	350,394	(201,163)	58,253	21,680
Other revenues	<u>553,241</u>	<u>1,707,735</u>	<u>634,524</u>	<u>192,965</u>	<u>707,752</u>
Total revenues	\$63,171,310	\$56,724,348	\$54,756,665	\$54,292,096	\$56,452,978
Expenditures					
General government	8,646,822	9,808,544	9,215,265	9,785,663	8,660,865
Public safety	33,302,747	31,354,970	28,727,983	28,461,175	29,176,141
Culture and recreation	5,328,693	6,027,462	5,599,052	5,699,228	6,192,471
Public works	<u>17,737,634</u>	<u>7,500,615</u>	<u>6,207,990</u>	<u>5,923,828</u>	<u>6,149,939</u>
Total operating expenditures	\$65,015,896	\$54,691,591	\$49,750,290	\$49,869,894	\$50,179,416
Excess of revenues over expenditures	(1,844,586)	2,032,757	5,006,375	4,422,202	6,273,562
Capital outlay	7,764,994	3,405,258	3,124,353	1,705,513	1,510,341
Debt service					
Interest	1,035,878	1,178,066	1,192,716	811,711	896,096
Principal	<u>515,000</u>	<u>1,235,000</u>	<u>1,235,000</u>	<u>1,325,000</u>	<u>1,425,000</u>
Total Non-Operating expenditures	\$9,315,872	\$5,818,324	\$5,552,069	\$3,842,224	\$3,831,437
Excess of revenues over expenditures	\$(11,160,458)	\$(3,785,567)	\$(545,694)	\$579,978	\$2,442,125
Other financing sources (Uses)					
Bonds issued	6,634,179	-	-	-	-
Premium on bonds issues	163,120	-	-	-	-
Refunding Lease	-	-	-	-	-
Capital Contribution	-	-	-	-	-
Proceeds from sale of capital assets	-	-	3,006	3,384	5,829
Transfers in	4,179,102	215,047	331,183	424,211	830,712
Transfers out	<u>(5,497,006)</u>	<u>(263,835)</u>	<u>(220,953)</u>	<u>(289,458)</u>	<u>(724,350)</u>
Total other financing sources (uses)	\$5,479,395	\$(48,788)	\$113,236	\$138,137	\$112,191
Prior Period Adjustment	<u>202,807</u>	-	<u>(20,000)</u>	-	-
Net change in fund balances	\$(5,478,256)	\$(3,834,355)	\$(452,458)	\$718,115	\$2,554,316
Debt - % of Operating Expenditures	2.4%	4.4%	4.9%	4.3%	4.6%

Source: City of Manhattan Beach

The following tables show the General Fund balance sheet for fiscal years 2006-7 through Fiscal Year 2010-11. In accordance with GASB 54, the presentation of fund balances change commencing in Fiscal Year 2010-11, and is presented as a separate table.

TABLE 9
City of Manhattan Beach
General Fund Balance Sheet
June 30, 2007 through June 30, 2010

	2007	2008	2009	2010
Assets:				
Pooled cash and investments	\$ 19,611,768	\$ 16,574,852	\$ 17,373,352	\$ 17,309,391
Receivables:				
Accounts	366,265	440,824	409,676	448,723
Taxes	2,804,462	2,931,580	2,639,318	3,076,895
Notes and loans				
Accrued interest	743,626	620,323	485,714	206,594
Prepaid costs	19,430	35,941	20,613	14,230
Due from other governments	260,499	130,274	194,403	331,289
Due from other funds	20,000	130,395	72,478	554,969
Advances to other funds				
Restricted assets:				
Cash and investments with fiscal agents	1,066,128	1,508,240	1,380,268	1,259,718
 Total Assets	 <u>\$ 24,892,178</u>	 <u>\$ 22,372,429</u>	 <u>\$ 22,575,822</u>	 <u>\$ 23,201,809</u>
 Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 659,493	\$ 571,938	\$ 853,183	\$ 747,827
Accrued liabilities	1,028,685	1,034,633	1,144,906	1,303,917
Deferred revenues	656,859	645,665	602,060	1,100,728
Unearned revenues	824,259	851,878	835,803	933,975
Deposits payable			674,804	753,399
Due to other funds	93,706	152,710		
Interest payable	<u>650,163</u>	<u>678,447</u>	<u>135,297</u>	<u>116,130</u>
 Total Liabilities	 <u>3,913,165</u>	 <u>3,935,271</u>	 <u>4,246,053</u>	 <u>4,955,976</u>
 Fund Balances:				
Reserved:				
Reserved for encumbrances	487,666	459,705	353,367	199,708
Reserved for prepaid costs	19,430	35,941	20,613	14,230
Reserved for notes and loans				
Reserved for advances to other funds				
Continuing projects				
Debt service	972,422	1,355,530	1,244,971	1,143,587
Unreserved:				
Unreserved, reported in:				
General Fund	19,499,495	16,585,982	16,710,818	16,888,308
Special revenue funds				
Capital projects funds				
 Total Fund Balances	 <u>20,979,013</u>	 <u>18,437,158</u>	 <u>18,329,769</u>	 <u>18,245,833</u>
 Total Liabilities and Fund Balances	 <u>\$ 24,892,178</u>	 <u>\$ 22,372,429</u>	 <u>\$ 22,575,822</u>	 <u>\$ 23,201,809</u>

Source: City of Manhattan Beach

TABLE 9A
City of Manhattan Beach
General Fund Balance Sheet
June 30, 2010 through June 30, 2011

	2011
Assets:	
Pooled cash and investments	\$19,545,360
Receivables:	
Accounts	413,219
Taxes	3,215,761
Notes and loans	432,000
Accrued interest	223,554
Prepaid costs	19,519
Due from other governments	205,184
Due from other funds	22,488
Advances to other funds	-
Restricted assets:	
Cash and investments with fiscal agents	<u>1,277,355</u>
 Total Assets	 <u>\$ 25,354,440</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$1,231,922
Accrued liabilities	1,566,975
Deferred revenues	1,025,021
Unearned revenues	830,978
Deposits payable	699,838
Due to other funds	-
Interest payable	<u>95,084</u>
 Total Liabilities	 <u>5,449,818</u>
 Fund Balances:	
Nonspendable:	
Prepaid costs	19,519
Notes and loans	432,000
Advances to other funds	
Restricted for:	
Public safety	
Parks and recreation	
Public works	
Capital projects	
Debt service	1,182,271
Committed to:	
Capital projects	
Unassigned	<u>18,270,832</u>
 Total Fund Balances	 <u>19,904,622</u>
 Total Liabilities and Fund Balances	 <u>\$ 25,354,440</u>

Source: City of Manhattan Beach

Direct and Overlapping Bonded Debt. The statement of direct and overlapping debt (the "Debt Report") set forth below was prepared by California Municipal Statistics, Inc. as of June 30, 2011. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City takes no responsibility for its completeness or accuracy. See "THE CITY-City Financial Information-City Assessed Valuation" for 2011-12 assessed valuation information.

TABLE 10
City of Manhattan Beach
Direct and Overlapping Debt
(As of June 30, 2011)

Governmental Unit	Gross Bonded Debt Balance	Percentage Applicable To City	Net Bonded Debt
<i>Debt repaid with property taxes</i>			
Bonds, Lease	13,005,000	100.000%	13,005,000
Manhattan Beach UNIF 96 SER A DS	8,803,362	100.000%	8,803,362
Manhattan Beach UNIF DS 1998 SER B	5,749,278	100.000%	5,749,278
Manhattan Beach USD DS 1999 SER C	3,438,403	100.000%	3,438,403
Manhattan Beach USD DS 2001 SER D	4,263,769	100.000%	4,263,769
Manhattan Beach USD DS 2010 SER A	9,738,877	100.000%	9,738,877
Manhattan Beach USD DS 1995 SER E	4,628,829	100.000%	4,628,829
Manhattan Beach USD DS 2000 SER B	7,351,026	100.000%	7,351,026
Manhattan Beach USD DS 2004 REF BDS	15,470,000	100.000%	15,470,000
Manhattan Beach USD DS 2008 2009 SER A	7,651,589	100.000%	7,651,589
Total Direct Debt			<u>80,100,133</u>
<i>Overlapping Debt</i>			
Metropolitan Water District	107,259,876	1.403%	1,504,686
El Camino CCS DS 2002 S-2003A	5,120,000	15.049%	770,517
El Camino CCS DS 2005 REF BONDS	28,732,715	15.049%	4,324,034
El Camino CCS DS 2002 SER 2006B	137,350,000	15.049%	20,670,027
Total Overlapping Debt			<u>27,269,265</u>
Total Direct and Overlapping Debt			<u>\$ 107,369,398</u>

Source: California Municipal Statistics, Inc.

Outstanding General Fund Debt and Lease Obligations. The City currently has outstanding general fund debt and lease obligations described below. The City has never defaulted on the payment principal of or interest on any of its indebtedness. The City has complied with all significant bond covenants relating to reserve and sinking fund requirements, proofs of insurance, and budgeted revenues and maintenance costs.

On April 24, 2002, the City issued \$9,535,000 Variable Rate Demand Refunding Certificates of Participation to finance the Marine Sports Field Lease (the "Marine Ave. COPS"). The rate used for the repayment schedule is 3.58% which was the rate estimated at the execution and delivery of the 2012 Certificates of participation. The final payment is scheduled for August 1, 2032. The annual lease payment for the obligations is estimated to be \$508,735 in Fiscal Year 2011-12.

On November 4, 2004, the City executed and delivered \$12,980,000 Certificates of Participation (Police and Fire Facility Project) Series 2004, the proceeds of which, when combined with the City's cash contribution, were used to pay the costs of a new \$41 million combined Police and Fire safety facility. Interest rates on the 2004 Certificates range from 2% to 5% and mature through 2036. The annual lease payments for the obligations range from \$82,983 to \$794,375. **[CONFIRM]**

On March 14, 2007, the City executed and delivered \$6,800,000 Taxable Pension Obligation Bonds, Series 2007, the proceeds of which were used to pay off the City's CalPERS "side fund" liabilities associated with CalPERS placing the City's Police and Fire pension plans into risk sharing pools (this reduced borrowing costs through lower net interest rates compared to the CalPERS actuarial rate on unfunded liabilities). The interest rate on the 2007 bonds is 5.011% with a final maturity of July 1, 2014.

On January 16, 2001, the City entered into an operating agreement with the South Bay Regional Public Communications Authority. The operating agreement provides a funding mechanism for the Authority to upgrade the 911 emergency telephone and radio dispatch center which serves the City, and City payments under the Operating Agreement are pledged as security for the Authority's bonds (the "Regional Authority Bonds"). The City has committed to future payments in connection with the variable rate agreement of approximately \$2,096,364 (I get \$2,089,672.75) of which \$1,445,000 constitutes principal payments. The final payment is scheduled for June 30, 2031.

Following is a summary of the principal amounts of the City's outstanding long-term obligations as of June 30, 2011.

TABLE 11
Outstanding Principal Amounts of
Long Term Obligations
(As of June 30, 2011)

Marine Ave COP	\$7,715,000
Police & Fire Facility COPs	11,725,000
Metlox Parking COPs	11,435,000
Pension Obligation Bonds	3,795,000
South Bay Communication (RCC)	1,495,000
Total Liabilities	\$36,165,000

Letters of Credit. In connection with the Marine Ave. COPs and the Regional Authority Bonds, the City has obtained two letters of credit from Bank of America, N.A. The City is obligated to reimburse draws on such letters of credit from general fund sources as described in the respective reimbursement agreements between the City and Bank of America, N.A. Certain terms of the letters of credit are as follows:

**TABLE 12
VARIABLE RATE BONDS CREDIT ENHANCEMENT**

	<u>Outstanding Principal</u>	<u>Letter of Credit Provider</u>	<u>Scheduled Expiration of Letters of Credit</u>
Marine Ave. COPs		Bank of America, N.A.	September __, 2012
Regional Authority Bonds		Bank of America, N.A.	September __, 2012

The City is in the process of replacing these letters of credit.

Owners of the Marine Avenue COPs and the Regional Authority Bonds have a right to tender their Marine Avenue COPs and the Regional Authority Bonds for purchase at a price equal to par plus accrued interest, upon notice as described in the trust agreements for the Marine Avenue COPs and the Regional Authority Bonds. In the event such tendered Marine Avenue COPs or Regional Authority Bonds cannot be remarketed, the respective letter of credit supporting payment thereof will be drawn on and the proceeds of such draw will be used to pay the purchase price to the tendering holders of the Marine Avenue COPs and the Regional Authority Bonds, as applicable. In such event, the City is obligated to use its best efforts to reimburse the letter of credit provider for such draw on the letter of credit. In addition, the interest rate payable by the City in such circumstances could be significantly higher than the variable rate that was borne by the Marine Avenue COPs or Regional Authority Bonds prior to the failed remarketing. The accelerated amortization and increased interest rate would significantly increase the size of current debt service payments due and owing on the Marine Avenue COPs or the Regional Authority Bonds.

Capital Improvements and Construction Funds

The City Council has established revenue sources within the Capital Improvements Fund (“CIP”) through increases in the transient occupancy tax, on-street parking meters and citation rates. As a policy matter, the City intends to use these revenues sources for funding of capital projects. This revenue source is estimated to be approximately \$1.4 million for Fiscal Year 2011-12 and, although such money is not legally pledged in connection with the 2012 Certificates, the City anticipates that these revenues will be sufficient to fund annual Lease Payments in connection with the 2012 Certificates. Revenue sources within the CIP Fund have been matched with projected projects in a five year plan that is adopted annually as part of the City’s annual budget process.

The City maintains a listing of un-prioritized and unfunded projects which it reviews on an annual basis after fiscal reserves are defined. This listing contains non-critical desired enhancements, many of which relate to park facility improvements and general office improvements. All City street and utility improvements are maintained through a planned and scheduled use of restricted funding sources beyond those items considered within the City’s CIP Fund.

Investment of City Funds

The City and its component units are generally authorized under its investment policy and Section 53601 of the California Government Code, bond indentures and local resolutions to invest in demand deposits with financial institutions; savings accounts; certificates of deposit; U.S. Treasury securities; federal agency securities; State of California notes or bonds; repurchase agreements; medium term corporate notes; bankers' acceptances; commercial paper; and the Local Agency Investment Fund of the State of California. The City's investment policy allows for the purchase of most of the investment vehicles authorized under Section 53601 of the California Government Code.

The City and its component units have also established guidelines for security purchases with investment limitations as follows: Bankers acceptances may not exceed 20% of the City's surplus money. Negotiable certificates of deposits may not exceed 20% of the City's surplus money. Commercial paper may not exceed 270 days maturity nor exceed 15% of the City's surplus funds. Medium term corporate notes may not exceed 20% of the City's surplus funds, cannot exceed a three year term and must be made within the top four Moody's ratings (Aaa – Aaa3) and top three Standard & Poor's ratings (AAA – AA+) categories. Investments in repurchase agreements may not exceed a term of one year. The City's investment policy specifically prohibits investments in reverse repurchase agreements and derivatives, including interest rate floaters, range notes and mortgage derived interest-only strips. Further, the policy prohibits investment in California state and local obligations, mutual funds and mortgage pass through securities.

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of April 30, 2012, 34% of the portfolio consisted of federal agency notes and U.S. Treasury securities, 58% invested in liquid state investment pools, 5% in high grade corporate notes and 3% in certificates of deposit. The average maturity of the portfolio was 426 days. As of April 30, 2012, the market value of the City's investment portfolio was \$66,116,196 and the investment portfolio's book value was \$65,936,427. The following table summarizes certain information relating to the City's investment portfolio as of April 30, 2012:

TABLE 13
City of Manhattan Beach
Investment Portfolio Summary
(as of April 30, 2012)

<u>Type of Investment</u>	<u>Market Value</u>
Local Government Fund	\$ 38,400,000
US Treasury and Agency Note	22,939,350
Medium Term Note	3,057,130
Certificates of Deposit	<u>1,719,716</u>
Total	<u>\$ 66,116,196</u>

The portfolio represents cash and investments across several funds. The General Fund represents approximately 27% of the total portfolio; the Insurance Reserve Fund, approximately 15%; the Water utility fund approximately 13%; and the general Capital Improvement Project Fund 9%. The remaining funds comprise 0% to 5% of the total.

City Employees

There are approximately 268 current full-time and approximately 150 part-time City employees. The City generally enjoys positive relations with its employees. About 25% of the City's full-time employees are not represented, while the remaining 75% are represented by employee organizations within 3 bargaining units. The City's has three bargaining units: Manhattan Beach Firefighters Association; the Manhattan Beach Police Officers Association; and the Teamsters Local 911. (Management is unrepresented). All three units' contracts were initially executed in 2005 or 2006, and currently expire (taking into account extensions) on December 31, 2012. Labor negotiations are underway in order to secure new agreements.

The following summarizes the membership of the City's unrepresented unit and employee associations:

TABLE 14
City of Manhattan Beach
Unrepresented Unit and Employee Associations

Employee Unit	Number of Full Time Employees	Percent of Workforce
Manhattan Beach Fire Association	26	9.7%
Manhattan Beach Police Officers' Association	56	20.9
Miscellaneous Unit - Teamsters Local 911	116	43.3
Management/Confidential (not represented)	70	26.1
TOTAL	268	100

City Employees Retirement Program

The City contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All permanent City employees are eligible to participate in PERS. Participants in the plan vest after 5 years of

employment. Employees in the plan are eligible to retire at ages 50 to 55 and receive annual retirement benefits calculated based on age at retirement, years of membership service and the amount of earnings based on the highest consecutive 12 months average.

The City of Manhattan Beach has three defined benefit plans: Police ("3% at 50"), Fire ("3% at 55") and Miscellaneous ("2% at 55"). Each provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The Fiscal Year 2012-13 budget projects PERS retirement costs of approximately \$6.2 million, up \$107,166 from Fiscal Year 2011-12. These costs have significantly increased in the past few years due to investment market losses sustained by PERS. In Fiscal Year 2012-13, the City will be paying pension costs of 35.4 cents for every dollar in salary for Police, 31.7 cents per dollar of salary for Firefighters and 16.7 cents per dollar for Miscellaneous members. In Fiscal Year 2011-12, the PERS board voted to decrease the actuarially assumed investment rate of return from 7.75% to 7.5%, effective July 1, 2013. This reduction will result in an estimated increase of the City's employer contributions of \$600,000 beginning in Fiscal Year 2013-14. See "THE CITY - General Economic Condition and Outlook."

Pursuant to collective bargaining arrangements, the City also pays the employee contribution to PERS.

The following table shows City contributions to PERS (including both the City portion as well as employee contributions paid by the City) for Fiscal Years 2008-09 through 2011-12, as well as expected contribution for Fiscal Year 2012-13. [Debt service with respect to the Pension Obligation Bonds is not included in the table.]

TABLE 15
Historical and Projected Payments to PERS

Fiscal Year Ended June 30	2009	2010	2011	2012	2013
<u>Police</u>					
Employee	\$544,566	\$578,391	\$619,386	\$640,649	\$673,489
Employer	<u>1,282,090</u>	<u>1,327,858</u>	<u>1,436,975</u>	<u>1,838,022</u>	<u>1,976,765</u>
Subtotal	\$1,826,656	\$1,906,249	\$2,056,361	\$2,478,671	\$2,650,254
<u>Fire</u>					
Employee	334,066	372,498	362,437	371,465	381,300
Employer	<u>676,113</u>	<u>756,088</u>	<u>732,122</u>	<u>949,548</u>	<u>963,586</u>
Subtotal	\$1,010,179	\$1,128,586	\$1,094,559	\$1,321,013	\$1,344,886
<u>Misc</u>					
Employee	773,236	810,871	874,305	859,408	917,758
Employer	<u>822,502</u>	<u>850,604</u>	<u>959,237</u>	<u>1,159,218</u>	<u>1,269,128</u>
Subtotal	<u>\$1,595,738</u>	<u>\$1,661,475</u>	<u>\$1,833,542</u>	<u>\$2,018,626</u>	<u>\$2,186,886</u>
Total	\$4,432,573	\$4,696,310	\$4,984,462	\$5,818,310	\$6,182,026

There can be no assurances that the City's annual contributions to CalPERS will not significantly increase in the future. The actual amount of any increases will depend on a variety of

factors, including but not limited to investment returns, actuarial assumptions, experience and retirement benefit adjustments.

The City also provides certain other post employment benefits (“OPEBs”) to employees, generally consisting of \$250 to \$400 per month paid directly to the employee to be used towards the health insurance premiums. Employees who retire from employment with the City and meet service requirements ranging from 15 to 20 years are eligible. The plan and payment amounts are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreement between the City and the bargaining units. In Fiscal Year 2010-11, the City paid \$83,590 to retirees.

The City of Manhattan Beach contracts with PERS to participate in the Public Employee Medical and Hospital Care Act (PEMHCA). Under this contract, both active employees and retirees are provided access to health insurance. The City makes a contribution to retirees who elect to purchase insurance through PERS. This contribution is mandated by Assembly Bill 2544 and is adjusted annually by PERS. For Fiscal Year 2011, the City contribution paid to PERS for PEMCHA was \$89,935. Plan members receiving benefits paid \$518,426.

For a detailed description of the City’s pension and OPEB obligations, see Note 9 in “APPENDIX A - CITY OF MANHATTAN BEACH COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011.”

City Insurance Program

The City adopted a self-insured workers’ compensation program that is administered by a service agent. The City is self-insured for the first \$750,000 on each claim. Insurance coverage in excess of the self-insured amount is provided by a private insurance company up to a limit of \$95,000,000. Also, the City is self-insured for the first \$500,000 on each general liability claim against the City. The insurance coverage in excess of the self-insured amount is provided by Independent Cities Risk Management Authority (“ICRMA”) up to a limit of \$20,000,000. ICRMA is considered a self-sustaining risk pool. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These estimates include an estimate of the claims that have been incurred but not reported. [UPDATE] At June 30, 2004, risk management liabilities equaled a total of \$4,032,420. This amount includes an estimate of \$2,401,175 for reported claims and \$1,631,245 for incurred but not reported claims.

The City is a member of the ICRMA, a public entity risk pool currently operating as a common risk management and insurance program for [UPDATE] 28 cities. The City pays an annual premium to the pool for its excess general liability insurance coverage. The City carries commercial companies for all other risks of loss, including property insurance including earthquake and flood, auto physical damage insurance and special events insurance.

RISK FACTORS

PURCHASE OF THE 2012 CERTIFICATES INVOLVES CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE 2012 CERTIFICATES IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE MARKET PRICE OF THE 2012 CERTIFICATES TO AN EXTENT THAT CANNOT BE DETERMINED, HOWEVER, THEY DO NOT PURPORT TO BE AN

EXHAUSTIVE LISTING OF RISKS AND OTHER CONSIDERATIONS WHICH MAY BE RELEVANT TO AN INVESTMENT IN THE 2012 CERTIFICATES, IN ADDITION, THE ORDER IN WHICH THE FOLLOWING FACTORS ARE PRESENTED IS NOT INTENDED TO REFLECT THE RELATIVE IMPORTANCE OF ANY SUCH RISKS.

No Liability of Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the 2012 Certificates with respect to the payment when due of Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Not a Pledge of Taxes

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

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and the City has covenanted in the Lease Agreement that, for as long as the Leased Premises is available for its use and possession, it will make the necessary annual appropriations within its budgets for all Lease Payments. The City is currently liable on other obligations payable from general revenues,

Additional Obligations of the City

The City has the capability to enter into other obligations, including Additional Certificates, which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Leased Premises, taxes and other governmental charges levied against the Leased Premises) are payable from funds lawfully available to the City. In the event that the amounts which 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, as the City Council may determine 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.

Limited Recourse on Default; No Acceleration

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell the Leased Premises and use the proceeds of such sale to redeem the 2012 Certificates or pay debt service thereon. The City will be liable only for Lease Payments on an annual basis, and the Trustee would be required to

seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State of 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

The obligation of the City under the Lease Agreement to pay Lease Payments is in consideration for the use and possession of the Leased Premises. The obligation of the City to make Lease Payments may be abated in whole or in part if the City does not have full use and possession of the Leased Premises.

As provided in the Lease Agreement, the amount of Lease Payments due under the Lease Agreement shall be abated during any period in which by reason of damage, destruction, eminent domain, if applicable, or otherwise there is substantial interference with the use and possession of the Leased Premises. Such abatement will end with the substantial completion or replacement, repair or reconstruction of the affected Leased Premises. If damage or destruction or eminent domain proceedings, if applicable, with respect to any portion of the Leased Premises result in abatement of the Lease Payments and the resulting Lease Payments (and in the event of damage or destruction, together with rental interruption proceeds, if any), are insufficient to make all payments of principal and interest represented by the 2012 Certificates during the period that the Leased Premises is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners, under the Lease Agreement or Trust Agreement, for nonpayment under such circumstances.

Notwithstanding the foregoing provisions of the Lease Agreement and the Trust Agreement specifying the extent of abatement in the event of the City' failure to have use and possession of the Leased Premises, such provisions may be superseded by operation of law, and, in such event, the resulting

Lease Payments of the City may not be sufficient to pay all of that portion of the principal and interest represented by the 2012 Certificates remaining Outstanding.

Eminent Domain

If the Leased Premises 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 Agreement will cease as of the day possession is taken. If less than all of the Leased Premises is taken permanently, or if the Leased Premises or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Lease Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Premises. The City covenants in the Lease Agreement to contest any eminent domain award which is insufficient to either: (i) prepay the 2012 Certificates in whole, if all the Leased Premises is condemned; or (ii) prepay a pro rata share of Certificates, in the event that less than all of the Leased Premises is condemned.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well-known and widely applicable of these laws. In addition, California laws impose particular requirements with regard to hazardous substances. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substances or conditions on the property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the financial and legal ability of the property owner or operator to develop the affected property or other adjacent property, and the value of the affected property or adjacent property, These possibilities could also affect the ability of the City to have use and possession of the Leased Premises. See "Abatement."

State Budget

The City cannot predict whether the State will continue to encounter budgetary problems in this or in any future fiscal years, and if it were to do so, it is unknown what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. See "STATE BUDGET."

Bankruptcy

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

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement, the Trustee, on behalf of the Owners of the 2012 Certificates, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or

Owners of the 2012 Certificates. Moreover, such rejection would terminate the Lease Agreement and the City's obligations to make payments thereunder.

Earthquakes

The City, like much of California, is subject to seismic activity. The Inglewood fault line is near the City. The City is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Premises. Depending on its severity, an earthquake could result in abatement of Lease Payments under the Lease Agreement. See "Abatement" above. The City currently maintains earthquake insurance on all City structures as part of a risk pool in which the City participates. There is no assurance, nor any requirement under the Lease Agreement, that such coverage will be provided or continued with respect to the Project.

STATE BUDGET

The State has been experiencing significant financial stress, experiencing budget shortfalls in the billions of dollars. State revenues have declined significantly as a result of recent economic conditions and other factors. While the State is not a significant source of City revenues, and the City does not anticipate that the State's financial condition will materially adversely affect the financial condition of the City, there can be no assurances state financial pressures will not adversely affect the City.

The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Fiscal Year 2012-13 Proposed State Budget. On January 5, 2012, Governor Brown released his 2012-13 Proposed Budget (the "Fiscal Year 2012-13 Proposed State Budget"), which estimates that, without corrective action, the State will end Fiscal Year 2012-13 with a \$9.2 billion deficit consisting of a \$4.1 billion State General Fund deficit through the end of Fiscal Year 2011-12 (rather than the \$1.5 billion reserve balance assumed in the 2011-12 State Budget) and a \$5.1 billion excess of expenditures over revenues for Fiscal Year 2012-13. The Fiscal Year 2012-13 Proposed State Budget proposes \$10.3 billion in expenditure reductions and increased revenues (including a temporary increase in income and sales taxes proposed for the November 2012 ballot (the "2012 Tax Initiative")) to balance the State's budget for Fiscal Year 2012-13 and to rebuild a reserve. Assuming the passage of the 2012 Tax Initiative, the Fiscal Year 2012-13 Proposed State Budget estimates Fiscal Year 2012-13 revenues and transfers of \$95.4 billion, total expenditures of \$92.6 billion and a year-end surplus of \$1.9 billion (net of the negative \$985 million prior-year State General Fund balance). The Fiscal Year 2012-13 Proposed State Budget allocates the projected surplus to the reserve for the liquidation of encumbrances (\$719 million) and the special fund for economic uncertainties (\$1.1 billion).

The Fiscal Year 2011-12 Proposed State Budget relies in part on passage of the 2012 Tax Initiative, pursuant to which the personal income tax rates for certain high income earners would increase for five years (2012 through 2016) and State sales and use tax would increase by one-half percent for four years (2013 through 2016). The Fiscal Year 2012-13 Proposed State Budget projects that 2012 Tax Initiative, if approved, would generate approximately \$6.9 billion through Fiscal Year 2012-13 and generate billions of dollars per year until its expiration. The taxes would be deposited into the State's General Fund to pay for Proposition 98 school funding obligations and certain State programs. In the event the Governor's proposed ballot proposition fails to pass, the Fiscal Year 2012-

13 Proposed State Budget specifies approximately \$5.4 billion in expenditure reductions in, among other things, education (accounting for 90% of the targeted reductions) and judicial branch appropriations. The Governor notes that the implementation of many of the proposals contained in the Fiscal Year 2012-13 Proposed State Budget will require additional time before savings are accrued and additional expenditure reductions may be needed.

Legislative Analyst's Office (LAO) Analysis of the 2012-13 Proposed State Budget. On January 11, 2012, the LAO released a report entitled "The 2012-13 Budget: Overview of the Governor's Budget" (the "2012 LAO Budget Overview"), which provides an analysis by the LAO of the Fiscal Year 2012-13 Proposed State Budget. The 2012 LAO Budget Overview states that the Governor has made a good-faith effort in revenue and economic forecasting despite the many uncertainties involved in projecting the State's recovery from the current economic downturn. Nevertheless, the LAO's revenue estimates for Fiscal Years 2011-12, 2012-13, and subsequent years currently are lower than the Governor's estimates and the LAO's estimates of revenues from the 2012 Tax Initiative are significantly lower than those of the Governor's. In reviewing the Governor's major proposals, the 2012 LAO Budget Overview states that the Governor's proposals for restructuring the school finance system, community college categorical funding and education mandates and his proposals for reducing social services and child care program funding merit consideration. The 2012 LAO Budget Overview also states that the 2012 Tax Initiative will increase the State budget's dependence on the volatile income tax payments by the State's wealthiest individuals and the proposed trigger reductions (if the 2012 Tax Initiative is not approved) would create significant uncertainty for schools, community colleges, and universities in Fiscal Year 2012-13. The 2012 LAO Budget Overview concludes that if the State chooses either of the Governor's two paths (*i.e.*, the multiyear tax increases and significant reductions in social services and subsidized child care programs or the trigger reductions largely relating to schools), the State budget would come closer to being balanced over the next several years.

Governor's Revised 2012 Tax Initiative. On March 14, 2012, the Governor announced that he would combine the Governor's 2012 Tax Initiative with an initiative proposed by the California Federation of Teachers to place the "California Sales and Income Tax Increase Initiative" (the "Governor's Revised 2012 Tax Initiative") on the November 2012 ballot. If approved in its current form, the Governor's Revised 2012 Tax Initiative would temporarily increase maximum marginal personal income tax rates for individuals, heads of households and joint filers above 9.3 percent by creating three additional tax brackets of 10.3 percent, 11.3 percent and 12.3 percent. The LAO projects that the increased personal income tax rates would affect approximately 1 percent of personal income tax filers in the State due to the high income threshold. If approved, the Governor's Revised 2012 Tax Initiative would be in effect from the 2012 tax year to the 2018 tax year. In addition, the Governor's Revised 2012 Tax Initiative would temporarily increase the State's sales and use tax rate by 0.25 percent from 2013 to 2016. On March 16, 2012, the LAO released its review of the Governor's Revised 2012 Tax Initiative. The LAO projects that revenues attributable to the Governor's 2012 Tax Initiative will be less than the Governor's \$9 billion estimate.

May Revision to the Fiscal Year 2012-13 Proposed State Budget. On May 14, 2012, the Governor released the May Revision to the Fiscal Year 2012-12 Proposed State Budget (the "May Revision"), which estimates that the State's budgetary shortfall for Fiscal Year 2012-13 has increased to \$15.7 billion as a result of reduced revenue forecasts, increases in school funding and unfavorable litigation outcomes and determinations by the federal government. The May Revision proposes \$16.7 billion in budgetary actions in Fiscal Years 2011-12 and 2012-13 to address the projected budgetary shortfall and provide for a reserve of \$1.0 billion at the end of Fiscal Year 2012-13. The May Revision proposes to address the State's deficit through additional spending reductions

(including the use of local reserves to reduce State General Fund costs for local trial courts on a one-time basis, reductions to hospital and nursing home funding and reductions in IHSS hours), implementation of the temporary tax increases set forth in the Governor's Revised 2012 Tax Initiative and use of various transfers, loans and repayment extensions. Assuming adoption of the proposals set forth in the May Revision and the approval of the Governor's Revised 2012 Tax Initiative, the Governor estimates that the State will end Fiscal Year 2011-12 with revenues and transfers of \$86.809 billion, total expenditures of \$86.500 billion and a year-end deficit of \$2.535 billion, which includes a \$2.844 billion prior-year State General Fund deficit and an allocation of \$719 million to the reserve for the liquidation of encumbrances. The May Revision projects Fiscal Year 2012-13 revenues and transfers of \$95.689 billion, total expenditures of \$91.387 billion and a year-end surplus of \$1.767 billion (net of the \$2.535 billion deficit from Fiscal Year 2011-12), of which \$719 million will be reserved for the liquidation of encumbrances and \$1.048 billion will be deposited in a reserve for economic uncertainties.

The May Revision also sets forth \$6.1 billion in trigger cuts that are scheduled to go into effect on January 1, 2013 should the Governor's Revised 2012 Tax Initiative fail to pass, including reduced funding for schools, community colleges and other higher education institutions, and reduced funding for a variety of public safety programs. The May Revision further states that potential cost increases associated with actions to reduce the federal deficit, federal government and court decisions, the pace of the economic recovery, an aging population and rising health care costs, among other things, threaten the ability of the State to achieve and maintain a balanced budget over the long-term.

LAO Overview of the May Revision On May 18, 2012, the Legislative Analyst's Office ("LAO") released a report titled "The 2012-13 Budget: Overview of the May Revision" (the "LAO Report"). The LAO Report states in part:

"We find the Governor's May Revision economic and revenue forecasts to be reasonable. Our 2011-12 and 2012-13 revenue estimates are just a few hundred million dollars below the administration's in each year. We are concerned, however, that the administration is overstating the amount of property tax revenues from former redevelopment agencies (RDAs) that will be distributed to schools in 2011-12 and 2012-13. Our rough estimate is that this causes the state's budget problem to be around \$900 million greater than assumed by the administration because these lower property tax revenue distributions would increase the state's "workload budget" Proposition 98 obligations.

One of the largest May Revision proposals is to strengthen the state's authority to expedite the transfer of the former RDAs' liquid assets (cash) to local governments, including school and community college districts. The administration estimates that the proposal would generate \$1.4 billion of General Fund benefit in 2012-13 and \$600 million in 2013-14 by reducing General Fund Proposition 98 obligations. We find that the administration's estimate of liquid assets available for distribution is subject to considerable uncertainty. While it is possible that schools will receive more than is estimated (generating greater General Fund benefit), it is more likely that schools would receive significantly lower amounts in 2012-13 (generating much less General Fund benefit). Part of our concern relates to the likelihood that lawsuits will delay distribution of these funds."

A copy of the LAO Report is available on the LAO website at www.lao.ca.gov.

Additional Information. Information about the State Budget is regularly available at various State-maintained websites. An impartial analysis of the budget is posted by the LAO at

www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City or the Underwriter, and the City and the Underwriter take no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATION

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the Voters prior to June 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two thirds of the votes cast by the voters voting on the Proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, does not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment could serve to reduce the property-tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residences and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of "newly constructed" the construction or installation of seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster.

Article XIIB of the State Constitution

Article XIIB of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the appropriations limit for the prior Fiscal Year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 Fiscal Year. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

Appropriations of an entity of local government subject to Article XIIB generally include authorizations to expend during a Fiscal Year the "proceeds of taxes" levied by or for the entity, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include but are not limited to, all tax revenues, certain State subventions received by the local governmental entity and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost of providing the service or regulation) and (2) the investment of tax revenues. Article XIIB provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Article XIIB does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose, or appropriations for certain other limited purposes. Furthermore, Article XIIB was amended in 1990 to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long term general fund lease obligations are generally excluded from the City's appropriations limit.

The City's appropriation limit for Fiscal Year 2012-13 is estimated to be \$574,424,000, for which expenditures subject to the appropriation limitation are \$309,583,000.

Articles XIIC and XIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election that must be held before November 6, 1998. The voter-approval requirements of Article

XIIIC reduce the flexibility of the City to raise revenues for the general fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

[DISCUSS] The City currently imposes the following general taxes: business-operations tax, utility-users tax, real-property-transfer tax and transient-occupancy tax. Since all of these taxes (except the utility users tax, as described below) were imposed before January 1, 1995, and have not been extended or increased since that date, these taxes should be exempt from the requirements of Article XIIIC. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIIIC.

Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments that exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred; (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected parties, and (iv) a prohibition against fees and charges used for general governmental services, including police, fire and library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution by expanding the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural marketing orders, and for the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees that would have to be reduced or eliminated because of Proposition 26.

Currently, the City transfers a portion of utility fund gross operating revenues to the General Fund to cover indirect support costs. The City believes that charges relating to such services are exempt from Proposition 218. The City believes that any successful challenges, however, to the

transfers of utility fund revenues to the General Fund would not have an impact on the City's ability to pay the Lease Payment under the Lease Agreement.

The City currently levies assessments for six service districts, maintenance districts and property and business improvement districts. These assessments are approximately \$230,000 annually. The City believes that each of such assessments and districts complies with the requirements of Article XIID, unless otherwise exempt. Subsequent increases of such assessments, if any, would be required to comply.

The City also levies assessments for five improvement districts under the California improvement district acts, which assessments were approximately \$1 million in Fiscal Year 2010-11. Each of such assessments secures bonded indebtedness that is payable solely from such assessments and has no claim on the City's General Fund.

Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's general fund. If such repeal or reduction occurs, the City's operations could be adversely affected.

Proposition 62

At the November 4, 1986, general election, the voters of the State approved Proposition 62, a statutory initiative (1) requiring that any tax imposed by local governmental entities for general governmental purposes be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity; (2) requiring that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction; (3) restricting the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed; (4) prohibiting the imposition of ad valorem taxes on real property by local governmental entities, except as permitted by Article XIII A; (5) prohibiting the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (6) requiring that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara City Local Transportation Authority v. Guardino*, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Guardino* decision did not address whether it should be applied retroactively.

In response to *Guardino*, the California Legislature adopted Assembly Bill 1362, which provided that *Guardino* should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. Assembly Bill 1362 was vetoed by the Governor; hence the application of the *Guardino* decision on a retroactive basis remains unclear.

The *Guardino* decision also did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal.App.4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda* (1993) 20 Cal.App.4th 120 (rev. den. Feb. 24, 1994), held that the restriction imposed by Proposition 62 on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5, of the California Constitution relating to municipal affairs.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative. It is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

Future Initiatives

Article XIII A, Article XIII B and Propositions 62 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting City's revenues or their ability to expend revenues.

THE CORPORATION

The Corporation is a nonprofit, public benefit corporation organized under California law by the City Council on July 9, 1996. The Corporation is authorized to provide financing for public capital improvements for the City, to acquire such public capital improvements and to purchase obligations. The five member City Council serve as the directors of the Corporation.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the 2012 Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the 2012 Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the 2012 Certificates may be included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2012 Certificate (the first price at which a substantial amount of the 2012 Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2012 Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the 2012 Certificate before receipt of cash attributable to such excludable income (with respect to the 2012 Certificates). The amount of original issue discount deemed received by the owner of a 2012 Certificate will increase the owner's basis in the 2012 Certificate. In the opinion of Special Counsel original issue discount that accrues to the owner of a 2012 Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income for federal income tax purposes of constituting interest (and original issue discount) due with respect to the 2012 Certificates is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the 2012 Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) due with respect to the 2012 Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2012 Certificates. The City and the Corporation have covenanted to comply with all such requirements applicable to each, respectively.

The amount by which a 2012 Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2012 Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2012 Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2012 Certificate premium reduces the 2012 Certificate Owner's basis in the applicable 2012 Certificate (and the amount of tax-exempt interest received with respect to the 2012 Certificates), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2012 Certificate premium may result in a 2012 Certificate Owner realizing a taxable gain when a 2012 Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012 Certificate to the Owner. Purchasers of the 2012 Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2012 Certificate premium.

An owner who acquires a 2012 Certificate for an amount that is greater than the sum of all amounts payable on the 2012 Certificate after the purchase date other than payments of qualified stated interest will be considered to have purchased such 2012 Certificate at a premium. An owner of a 2012 Certificate generally may elect to amortize such premium using a constant yield method over the remaining term of the 2012 Certificate. Any such election shall apply to all debt instruments (other than debt instruments the interest on which is excludable from gross income) held at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without consent of the IRS. Special rules may apply if a 2012 Certificate is subject to call prior to maturity at a price in excess of its redemption price at maturity.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Lease, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2012 Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2012 Certificates might be affected as a result of such an audit of the 2012 Certificates (or by an audit of similar securities).

Although Special Counsel has rendered an opinion that the interest (and original issue discount) due with respect to the 2012 Certificates is excluded from gross income for federal income tax purposes provided that the City and the Corporation continue to comply with certain requirements of the Code, the ownership of the 2012 Certificates and the accrual or receipt of interest (and original issue discount) with respect to the 2012 Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2012 Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the 2012 Certificates.

The form of Special Counsel's proposed opinion with respect to the 2012 Certificates is attached hereto in Appendix C.

CERTAIN LEGAL MATTERS

The validity of the 2012 Certificates and certain other matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel. A copy of the proposed form of opinion of Special Counsel is contained in Appendix C attached hereto. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney, by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel to the City, for the Corporation by Counsel to the Corporation and for the Underwriter by its counsel, Nixon Peabody LLP.

LITIGATION

No litigation is pending or threatened concerning the validity of the 2012 Certificates. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting or affecting the validity of the 2012 Certificates or any proceedings of the City and the Corporation taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for payment of the 2012 Certificates or the use of the proceeds of the 2012 Certificates.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the 2012 Certificates upon an Event of Default under the Lease Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. For example, acceleration is not available in such instance. The various legal opinions to be delivered concurrently with the 2012 Certificates (including Special Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitation imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

FINANCIAL STATEMENTS

The City's financial statements for the fiscal year ended June 30, 2011, relevant portions of which are included in Appendix A hereto, have been audited by Lance, Soll & Lunghard, LLP, an independent auditor, as stated in their report appearing in Appendix A hereto. The City has obtained

permission from the auditor to include the audited statements as an appendix to this Official Statement.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of holders and beneficial owners of the 2012 Certificates to provide or cause to be provided certain financial information and operating data relating to the City (the "Annual Report") by not later than February 15 of each year, commencing February 15, 2013, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth under the caption APPENDIX D - "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants are made in order to assist the Underwriter in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

The City's obligations under the Continuing Disclosure Agreement (the "Disclosure Agreement") shall terminate upon a legal defeasance, prior prepayment or payment in full of all of the 2012 Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the 2012 Certificates and Beneficial Owners of the 2012 Certificates and in order to assist the participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) and shall be enforceable by the owners of Certificates, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the City's obligations under the Disclosure Agreement and any failure by the City to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

The City has not failed to comply in the last five years in all material respects with any previous undertakings with regard to the rule to provide annual reports or notices of material events.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2012 Certificates, Grant Thornton LLP, independent certified public accountants, will deliver a report stating that the firm has verified (a) the mathematical accuracy of certain computations relating to the adequacy of the direct obligations of the United States of America and the interest thereon to pay when due the prepayment price, interest due to and to become due with respect to the Refunded Certificates on and prior to the specified respective prepayment dates thereof and (b) the computations of actuarial yields of the 2012 Certificates and of investments in the escrow funds for the Refunded Certificates which were relied upon by Special Counsel for the 2012 Certificates in reaching its conclusion that the interest with respect to the 2012 Certificates is excluded from gross income for federal tax purposes.

RATING

Standard & Poor's, a Division of McGraw-Hill Companies, Inc. ("S&P") has assigned a rating of "____" to the 2012 Certificates. Such rating reflects only the views of S&P, and explanation of the significance of such rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2012 Certificates.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") has agreed to purchase all of the 2012 Certificates for an aggregate purchase price of \$_____ which represents the total aggregate principal amount of the 2012 Certificates of \$_____, plus net original issue premium of \$_____ and less an Underwriter's discount of \$_____ subject to certain conditions set forth in the Purchase Contract between the City and the Underwriter. The Purchase Contract provides that the Underwriter will purchase all of the 2012 Certificates if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2012 Certificates to certain dealers (including dealers depositing Certificates into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

FINANCIAL ADVISOR

Loop Capital Markets LLC, Los Angeles, California, served as financial advisor to the City (the "Financial Advisor") with respect to the execution and delivery of the 2012 Certificates. The Financial Advisor has not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. The Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

MISCELLANEOUS

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the 2012 Certificates.

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF MANHATTAN BEACH

By: _____
David N. Carmany
City Manager

APPENDIX A

**CITY OF MANHATTAN BEACH COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

APPENDIX B
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX C
PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E
BOOK-ENTRY ONLY SYSTEM

**RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:**

**STRADLING YOCCA CARLSON & RAUTH
500 Capitol Mall Suite 1120
Sacramento, CA 95814
Attn: Kevin Civale**

[Space above for Recorder's use.]

**NO DOCUMENTARY TRANSFER TAX DUE.
This Assignment Agreement is recorded for the
benefit of the City of Manhattan Beach and the
recording is exempt under Section 27383 of the
California Government Code.**

ASSIGNMENT AGREEMENT

by and between

**MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION,
as Lessor**

and

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

Dated as of June 1, 2012

**\$ _____
City of Manhattan Beach
Certificates of Participation
(Metlox and Water/Wastewater Refunding)
Series 2012**

ASSIGNMENT AGREEMENT

This ASSIGNMENT AGREEMENT, executed and entered into and dated as of June 1, 2012, by and between MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and accepted by U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee");

WITNESSETH:

WHEREAS, the Corporation and the City of Manhattan Beach, a general law city organized and existing under the Constitution and laws of the State of California (the "City"), have executed and entered into a Lease Agreement (the "Lease"), dated as of the date hereof, under which the Corporation has agreed to lease to the City those certain Leased Premises as defined therein and described in Exhibit B thereto as provided therein; and

WHEREAS, under and pursuant to the Lease, the City is obligated to make Lease Payments, as defined therein, to the Corporation for the use and possession of the Leased Premises as described in Exhibit A hereto; and

WHEREAS, the Corporation desires to assign without recourse to the Trustee all its rights to receive the Lease Payments scheduled to be paid by the City under and pursuant to the Lease and all of its right, title and interest in that certain Site and Facilities Lease, by and between the City and the Corporation, dated as of the date hereof (the "Site Lease"); and

WHEREAS, in consideration of such assignment and the execution and entering into of a Trust Agreement (the "Trust Agreement") to be executed and entered into as of the date hereof, by and among the Trustee, the Corporation and the City, the Trustee has agreed to execute and deliver certificates of participation (the "Certificates") in an aggregate principal amount equal to the aggregate principal components of such Lease Payments; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Assignment Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Assignment Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

SECTION 1. Definitions. Unless the context otherwise requires, all capitalized terms used in this Assignment Agreement which are not defined herein shall for all purposes of this Assignment Agreement have the meanings specified therefor in the Lease or the Trust Agreement.

SECTION 2. Assignment. The Corporation hereby transfers, assigns and sets over to the Trustee, for the benefit of the registered owners (the "Owners") of the Certificates executed and delivered under the Trust Agreement, all of the Corporation's right, title and interest (but none of its

obligations) under the Lease (excepting only the Corporation's rights under Sections 7.4, 8.1 and 9.4 of the Lease), including, without limitation, (1) the right to receive and collect all of the Lease Payments, Additional Payments and Prepayments from the City under the Lease, (2) the right to receive and collect any proceeds of any insurance maintained thereunder, of any condemnation award rendered with respect to the Leased Premises, or of any lease or sale of the Leased Premises in the event of a default by the City under the Lease, (3) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease as may be necessary or convenient: (i) to enforce payment of the Lease Payments, Additional Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund established under the Trust Agreement or (ii) otherwise to protect the interests of the Corporation in the event of a default by the City under the Lease, and (4) the right, title and interest of the Corporation under the Site Lease. All rights assigned by the Corporation shall be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefit of the Owners.

SECTION 3. Acceptance. The Trustee hereby accepts the foregoing assignment for the benefit of the Owners, subject to the conditions and terms of the Trust Agreement, and all such Lease Payments shall be applied and all such rights so assigned shall be exercised by the Trustee under and pursuant to the Trust Agreement. The Trustee does not warrant the statements contained in the recitals hereto.

SECTION 4. Conditions. Excepting the sale, assignment and transfer to the Trustee of the Corporation's right, title and interest in and to the Site Lease and the Lease as set forth in Section 2 hereof, this Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement.

SECTION 5. Governing Law. This Assignment Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and performed in such State.

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

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION,
as Lessor

By: _____
Chief Administrative Officer

ATTEST:

By: _____
Assistant Secretary

APPROVED AS TO FORM:

By: _____
Counsel to the Corporation

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A
LEASED PREMISES

ESCROW AGREEMENT

(Relating to 2003 Certificates)

between the

CITY OF MANHATTAN BEACH, CALIFORNIA

and

**U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent**

Dated as of June 1, 2012

Relating to

**\$ _____
City of Manhattan Beach
Certificates of Participation
(Metlox and Water/Wastewater Refunding) Series 2012**

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ESCROW AGREEMENT

This Escrow Agreement, dated as of June 1, 2012 (the "Escrow Agreement"), between the City of Manhattan Beach, California, a political subdivision of the State of California (the "City"), and U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a corporate trust office in Los Angeles, California, and acting in its capacity as escrow agent with respect to the 2003 Certificates described below (the "Escrow Agent");

WITNESSETH:

WHEREAS, in order to finance the certain public improvements, the City executed and delivered the Certificates of Participation (Metlox Public Improvements) Series 2003 (the "2003 Certificates") pursuant to a Trust Agreement, dated as of January 1, 2003, between the City and the Escrow Agent, as trustee with respect to the 2003 Certificates (the "2003 Trust Agreement"); and

WHEREAS, the City has determined that it is in the best interests of the City to prepay its obligations under a Lease Agreement (the "2003 Project Lease"), dated as of January 1, 2003 between the City and the Manhattan Beach Capital Improvements Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), in connection with the 2003 Certificates and to refund the 2003 Certificates; and

WHEREAS, the City has duly executed and delivered City of Manhattan Beach Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "Refunding Certificates") under and pursuant to the Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), among the City, the Corporation and U.S. Bank National Association, as Trustee (the "Trustee"), a portion of the proceeds of which will be used, together with other available moneys, to fund the 2003 Escrow Fund created hereunder to provide for the payment of all principal and interest with respect to the 2003 Certificates on or before January 1, 2013 and the prepayment of the 2003 Certificates on January 1, 2013 (the "Prepayment Date"), at a prepayment price of 100% of the principal amount thereof plus accrued interest thereon (the "Prepayment Price"); and

WHEREAS, the City has taken action to cause to be delivered to the Escrow Agent on the date hereof the sum of \$_____ (consisting of \$_____ from the proceeds of the Refunding Certificates, \$_____ of moneys transferred from the Reserve Fund held pursuant to the 2003 Trust Agreement, \$_____ of other moneys available pursuant to the 2003 Trust Agreement, and \$_____ paid by the City to the Escrow Agent), which sum has been deposited by the Escrow Agent in the 2003 Escrow Fund hereinafter referred to and a portion of which will be used by the Escrow Agent on the date hereof to purchase those certain Federal Securities (as such term is defined in the 2003 Trust Agreement) (the "Escrow Securities") listed in Exhibit A attached hereto and made a part hereof, which Escrow Securities, together with the income to accrue on such Escrow Securities and the uninvested money held in the 2003 Escrow Fund, will be sufficient in accordance with the 2003 Trust Agreement, as certified by [[Causey Demgen & Moore Inc., Certified Public Accountants]] (the "Verification Agent"), to provide for the payment of all principal and interest with respect to the 2003 Certificates on or before the Prepayment Date and the prepayment of the 2003 Certificates on the Prepayment Date at the Prepayment Price;

NOW, THEREFORE, the City and the Escrow Agent hereby agree as follows:

Section 1. Establishment, Maintenance and Use of the 2003 Escrow Fund. The Escrow Agent agrees to establish the 2003 Escrow Fund (the "Escrow Fund") until the 2003 Certificates have been paid and prepaid as provided in Section 2 hereof. The Escrow Agent agrees to hold the Escrow Securities in the 2003 Escrow Fund and the uninvested money in the 2003 Escrow Fund and the money constituting the receipts on the Escrow Securities in the 2003 Escrow Fund at all times as a separate trust account wholly segregated from all other securities, investments or money held by it; and (other than the purchase of the Escrow Securities) the Escrow Agent will not invest any money at any time on deposit in the 2003 Escrow Fund. All money in the 2003 Escrow Fund is hereby irrevocably pledged to secure the payment and prepayment of the 2003 Certificates as provided in Section 2 hereof; provided, that any money held in the 2003 Escrow Fund that is not used for the payment and prepayment of the 2003 Certificates as provided in Section 2 hereof shall be repaid to the City free from the trust created by the Escrow Agreement.

Section 2. Payment from the 2003 Escrow Fund. The Escrow Agent is hereby irrevocably instructed to, and the Escrow Agent hereby agrees to, use the money in the 2003 Escrow Fund to provide for the payment when due of all principal and interest with respect to the 2003 Certificates on or before the Prepayment Date and the prepayment of the 2003 Certificates on the Prepayment Date at the Prepayment Price.

Section 3. Deficiencies in the 2003 Escrow Fund. If at any time it shall appear to the Escrow Agent that the money in the 2003 Escrow Fund will not be sufficient to make all payments required by Section 2 hereof, the Escrow Agent shall notify the City in writing as soon as reasonably practicable of such fact, stating the amount of such deficiency and the reason therefor, and the City shall use its best efforts to obtain and deposit with the Escrow Agent for deposit in the 2003 Escrow Fund, from any legally available money, such additional money as may be required to provide for the making of all such payments, and the Escrow Agent shall in no event or manner be responsible for the failure of the City to make any such deposit; provided, that the Escrow Agent shall have no duty or obligation to make any analysis or conduct any investigation to determine the sufficiency of the deposits into the 2003 Escrow Fund to make the payments required by Section 2 hereof.

Section 4. Notice of Prepayment. The City hereby irrevocably instructs the Escrow Agent, and the Escrow Agent (as Trustee under the 2003 Trust Agreement) agrees, to give timely notice of the prepayment of the 2003 Certificates maturing on the Prepayment Date in accordance with the 2003 Trust Agreement and in substantially the form attached hereto as Exhibit B.

Section 5. Transfer of Funds After Prepayment of 2003 Certificates. The Escrow Agent hereby agrees to transfer any money or securities remaining in the 2003 Escrow Fund after the payment and prepayment of the 2003 Certificates, to the City, subject to Section 11 hereof.

Section 6. Substitution of Securities.

(a) Interest income and other amounts received by the Escrow Agent as payments on the Escrow Securities shall be held as part of the 2003 Escrow Fund to be used for the purposes set forth in Section 2 hereof and shall not be reinvested.

(b) At the written request of the City, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall sell or otherwise dispose of all or a portion of the cash or Escrow Securities held in the 2003 Escrow Fund hereunder and substitute therefor other securities, now or hereafter authorized, both the interest on and principal of which are

guaranteed by the full faith and credit of the United States of America (the "Substituted Investments"). The Escrow Agent shall purchase such Substituted Investments with the proceeds derived from the sale, transfer, disposition or prepayment of the securities in the 2003 Escrow Fund; provided, that the substitution of investments described above may be effected only after the Escrow Agent receives (i) an opinion of nationally recognized bond counsel to the effect that such termination, disposition and substitution will not result in the inclusion of interest payable on any of the Refunding Certificates or 2003 Certificates in gross income for federal income tax purposes and (ii) a report of nationally recognized independent certified public accountants to the effect that such substitution will not adversely affect the sufficiency of the amount of securities, investments and money on deposit in the 2003 Escrow Fund to provide for the prepayment of the 2003 Certificates on the Prepayment Date. The Escrow Agent shall not be liable or responsible for any loss resulting from any disposition or substitution made pursuant to the Escrow Agreement and in full compliance with the provisions hereof.

Section 7. Fees and Costs of the Escrow Agent.

(a) The rights, duties and obligations of the Escrow Agent shall, except as otherwise expressly provided herein, be governed by the rights, duties and obligations of the Trustee pursuant to the 2003 Trust Agreement. The annual fees and costs of the Trustee for any other duties to be carried out by it under the 2003 Trust Agreement shall continue as previously agreed upon between the Trustee and the City.

(b) The Escrow Agent shall be entitled to payment by the City of reasonable fees and reimbursements for costs incurred in connection with the performance of its rights and duties hereunder, including but not limited to legal and accountants' services in connection with any litigation not arising from the Escrow Agent's negligence or misconduct which may at any time be instituted involving the Escrow Agreement.

(c) The fees of and the costs incurred by the Escrow Agent shall in no event be deducted or payable from or constitute a lien against the 2003 Escrow Fund.

(d) The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Agent will furnish the City periodic transaction statements which include detail for all investment transactions made by the Escrow Agent hereunder; provided that the Escrow Agent is not obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

Section 8. Indemnification. The City, to the extent allowed by law, hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and hold harmless the Escrow Agent and its respective successors, assigns, agents and servants from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including legal fees and disbursements whether incurred prior to trial, at trial, or on appeal or in any bankruptcy or arbitration proceedings) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, at any time, the Escrow Agent (whether or not also indemnified against by the City

or any other person under any other agreement or instrument) and in any way relating to or arising out of the execution and delivery of the Escrow Agreement, the establishment of the 2003 Escrow Fund, the retention of the money therein and any payment, transfer or other application of money or securities by the Escrow Agent in accordance with the provisions of the Escrow Agreement, or as may arise by reason of any act, omission or error of the Escrow Agent made in good faith in the conduct of its duties; provided, that the City shall not be required to indemnify the Escrow Agent against its own negligence or misconduct. The indemnities contained in this section shall survive the termination of the Escrow Agreement.

Section 9. Resignation of the Escrow Agent. The Escrow Agent may resign and be discharged of its duties hereunder if and at such time as the Trustee shall resign or be discharged as trustee under the 2003 Trust Agreement in accordance with the provisions of the 2003 Trust Agreement. Any successor trustee under the 2003 Trust Agreement shall succeed as the Escrow Agent under the Escrow Agreement.

Section 10. Merger or Consolidation of the Escrow Agent. Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business, as long as such company shall be eligible under the 2003 Trust Agreement, shall be the successor hereunder to the Escrow Agent without the execution or filing of any paper or any further act.

Section 11. Termination; Unclaimed Money. The Escrow Agreement shall terminate when the interest and principal on the 2003 Certificates has been paid as provided in Section 2 hereof and the 2003 Certificates have been prepaid as provided in Section 2 hereof; provided, that all money held by the Escrow Agent in the 2003 Escrow Fund for the payment and discharge of any of the 2003 Certificates which remains unclaimed shall be disposed of in accordance with the terms of the 2003 Trust Agreement.

Section 12. Capacity of Trustee. The Escrow Agent is entering into the Escrow Agreement in its capacity as Trustee under the 2003 Trust Agreement. Subject to the provisions of Sections 5, 6 and 11 hereof, all money held by the Escrow Agent hereunder is to be held and applied for the payment and the prepayment of the 2003 Certificates in accordance with the 2003 Trust Agreement.

Section 13. Tax-Exempt Nature of Interest on the Refunding Certificates. The City covenants and agrees for the benefit of the registered owners of the Refunding Certificates that it will not perform or permit to be performed any thing or act in such manner as would cause interest on the Refunding Certificates to be included in the gross income of the recipients thereof for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"), and, in particular, it will not use any of the proceeds received from the sale of the Refunding Certificates, directly or indirectly, in any manner which would result in the Refunding Certificates being classified as "arbitrage bonds" within the meaning of Section 148(a) of the Code.

Section 14. Severability. If any section, paragraph, sentence, clause or provision of the Escrow Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, sentence, clause or provision shall not affect any of the remaining provisions of the Escrow Agreement.

Section 15. Amendment. The parties hereto may, without the consent of or notice to the holders of the 2003 Certificates, enter into such agreements supplemental to the Escrow Agreement as shall not adversely affect the rights of such holders hereunder and shall not be inconsistent with the terms and provisions of the Escrow Agreement, for any one or both of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Escrow Agreement;
and
- (b) to grant or confer upon the Escrow Agent, for the benefit of the holders of the Refunding Certificates, any additional rights, remedies, powers or City that may lawfully be granted to or conferred upon the Escrow Agent.

The Escrow Agent shall enter into such agreements only upon receipt of, and shall be entitled to rely conclusively upon, an opinion of nationally recognized bond counsel to the effect that any such agreement complies with this section, and does not adversely affect the rights of the holders of the Refunding Certificates.

Section 16. Execution in Counterpart. The Escrow Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 17. Notice to the Escrow Agent and the City. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the corporate trust office of the Escrow Agent at _____, or as otherwise specified by the Escrow Agent in accordance with the provisions of the Indentures. Any notice to or demand upon the City shall be deemed to have been sufficiently given or served for all purposes by being mailed by first class mail, and deposited, postage prepaid, in a post office letter box, addressed to the City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266, Attention: Director of Finance (or at such other address as may have been filed in writing by the City with the Trustee).

Section 18. Governing Law. The Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the City and the Escrow Agent have each caused the Escrow Agreement to be signed in its name by its duly authorized officer all as of the day and year first above written.

CITY OF MANHATTAN BEACH, CALIFORNIA

By _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
Escrow Agent

By _____
Authorized Officer

EXHIBIT A

ESCROW SECURITIES

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Price	Total Cost
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EXHIBIT B
FORM OF PREPAYMENT NOTICE

Attachment "I"

CITY OF MANHATTAN BEACH
CERTIFICATES OF PARTICIPATION
(METLOX PUBLIC IMPROVEMENTS) SERIES 2003

NOTICE IS HEREBY GIVEN to the registered owners of the above-referenced certificates identified in the table below (the "Certificates") issued under the Trust Agreement, dated as of January 1, 2003, between the City and U.S. Bank National Association, as trustee with respect to the 2003 Certificates (the "2003 Trust Agreement"), the Certificates (which were originally executed and delivered on January 24, 2003) have been called for prepayment on January 1, 2013 (the "Prepayment Date") at a prepayment price of 100% of the principal amount thereof (the "Prepayment Price"), together with the accrued interest thereon to the Prepayment Date.

CERTIFICATES OF PARTICIPATION
(METLOX PUBLIC IMPROVEMENTS) SERIES 2003

<u>Payment Date</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u> [†]
2014	\$335,000	4.000%	562765BD8
2015	350,000	4.000	562765BE6
2016	365,000	4.250	562765BF3
2017	380,000	4.375	562765BG1
2018	400,000	4.500	562765BH9
2019	415,000	4.600	562765BJ5
2020	435,000	4.625	562765BK2
2021	455,000	4.750	562765BL0
2022	480,000	4.750	562765BM8
2023	500,000	4.750	562765BN6
2033	6,685,000	5.000	562765BP1

Interest on the Certificates shall cease to accrue from and after the Prepayment Date. Payment of the Prepayment Price will become due and payable on the Prepayment Date upon presentation and surrender of the Certificates, in person or by mail, at the office of the Trustee, as follows:

U.S. BANK NATIONAL ASSOCIATION
[PREPAYMENT ADDRESS]

If the Certificates are mailed, the use of registered, insured mail is recommended.

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 Trustee 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.

Dated: November __, 2012.

CITY OF MANHATTAN BEACH, CALIFORNIA

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2010 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Trustee take any responsibility for the accuracy of such numbers.

By U.S. Bank National Association, as Trustee
Attachment "I"

EXHIBIT B

ESCROW AGREEMENT

(Relating to 1996 Certificates)

between the

CITY OF MANHATTAN BEACH, CALIFORNIA

and

**U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent**

Dated as of June 1, 2012

Relating to

**\$ _____
City of Manhattan Beach
Certificates of Participation
(1996 Water and Wastewater Improvement Project)**

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ESCROW AGREEMENT

This Escrow Agreement, dated as of June 1, 2012 (the "Escrow Agreement"), between the City of Manhattan Beach, California, a political subdivision of the State of California (the "City"), and U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a corporate trust office in Los Angeles, California, and acting in its capacity as escrow agent with respect to the 1996 Certificates described below (the "Escrow Agent");

WITNESSETH:

WHEREAS, in order to finance the certain public improvements, the City executed and delivered the Certificates of Participation (1996 Water and Wastewater Improvement Project) (the "1996 Certificates") pursuant to an Indenture of Trust, dated as of September 1, 1996, between the City and the Escrow Agent, as trustee with respect to the 1996 Certificates (the "1996 Indenture of Trust"); and

WHEREAS, the City has determined that it is in the best interests of the City to prepay its obligations under an Installment Sale Agreement (the "1996 Installment Agreement"), dated as of January 1, 1996 between the City and the Manhattan Beach Capital Improvements Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), in connection with the 1996 Certificates and to refund the 1996 Certificates; and

WHEREAS, the City has duly executed and delivered City of Manhattan Beach Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "Refunding Certificates") under and pursuant to the Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), among the City, the Corporation and U.S. Bank National Association, as Trustee (the "Trustee"), a portion of the proceeds of which will be used, together with other available moneys, to fund the 1996 Escrow Fund created hereunder to provide for the redemption of the 1996 Certificates on July __, 2012 (the "Redemption Date"), at a redemption price of 100% of the principal amount thereof plus accrued interest thereon to the Redemption Date (the "Redemption Price"); and

WHEREAS, the City has taken action to cause to be delivered to the Escrow Agent on the date hereof the sum of \$_____ (consisting of \$_____ from the proceeds of the Refunding Certificates, \$_____ of moneys transferred from the Reserve Fund held pursuant to the 1996 Indenture of Trust, \$_____ of other moneys available pursuant to the 1996 Indenture of Trust, and \$_____ paid by the City to the Escrow Agent), which sum has been deposited by the Escrow Agent in the 1996 Escrow Fund hereinafter referred to and a portion of which will be used by the Escrow Agent on the date hereof to purchase those certain Federal Securities (as such term is defined in the 1996 Indenture of Trust) (the "Escrow Securities") listed in Exhibit A attached hereto and made a part hereof, which Escrow Securities, together with the income to accrue on such Escrow Securities and the uninvested money held in the 1996 Escrow Fund, will be sufficient in accordance with the 1996 Indenture of Trust, as certified by [[_____, Certified Public Accountants]] (the "Verification Agent")], to provide for the redemption of the 1996 Certificates on the Redemption Date at the Redemption Price;

NOW, THEREFORE, the City and the Escrow Agent hereby agree as follows:

Section 1. Establishment, Maintenance and Use of the 1996 Escrow Fund. The Escrow Agent agrees to establish the 1996 Escrow Fund (the "Escrow Fund") until the 1996 Certificates have been paid and redeemed as provided in Section 2 hereof. The Escrow Agent agrees to hold the Escrow Securities in the 1996 Escrow Fund and the uninvested money in the 1996 Escrow Fund and the money constituting the receipts on the Escrow Securities in the 1996 Escrow Fund at all times as a separate trust account wholly segregated from all other securities, investments or money held by it; and (other than the purchase of the Escrow Securities) the Escrow Agent will not invest any money at any time on deposit in the 1996 Escrow Fund. All money in the 1996 Escrow Fund is hereby irrevocably pledged to secure the payment and redemption of the 1996 Certificates as provided in Section 2 hereof; provided, that any money held in the 1996 Escrow Fund that is not used for the payment and redemption of the 1996 Certificates as provided in Section 2 hereof shall be repaid to the City free from the trust created by the Escrow Agreement.

Section 2. Payment from the 1996 Escrow Fund. The Escrow Agent is hereby irrevocably instructed to, and the Escrow Agent hereby agrees to, use the money in the 1996 Escrow Fund to provide for the redemption of the 1996 Certificates on the Redemption Date at the Redemption Price.

Section 3. Deficiencies in the 1996 Escrow Fund. If at any time it shall appear to the Escrow Agent that the money in the 1996 Escrow Fund will not be sufficient to make all payments required by Section 2 hereof, the Escrow Agent shall notify the City in writing as soon as reasonably practicable of such fact, stating the amount of such deficiency and the reason therefor, and the City shall use its best efforts to obtain and deposit with the Escrow Agent for deposit in the 1996 Escrow Fund, from any legally available money, such additional money as may be required to provide for the making of all such payments, and the Escrow Agent shall in no event or manner be responsible for the failure of the City to make any such deposit; provided, that the Escrow Agent shall have no duty or obligation to make any analysis or conduct any investigation to determine the sufficiency of the deposits into the 1996 Escrow Fund to make the payments required by Section 2 hereof.

Section 4. Notice of Redemption. The City hereby irrevocably instructs the Escrow Agent, and the Escrow Agent (as Trustee under the 1996 Indenture of Trust) agrees, to give timely notice of the redemption of the 1996 Certificates maturing on the Redemption Date in accordance with the 1996 Indenture of Trust and in substantially the form attached hereto as Exhibit B.

Section 5. Transfer of Funds After Redemption of 1996 Certificates. The Escrow Agent hereby agrees to transfer any money or securities remaining in the 1996 Escrow Fund after the payment and redemption of the 1996 Certificates, to the City, subject to Section 11 hereof.

Section 6. Substitution of Securities.

(a) Interest income and other amounts received by the Escrow Agent as payments on the Escrow Securities shall be held as part of the 1996 Escrow Fund to be used for the purposes set forth in Section 2 hereof and shall not be reinvested.

(b) At the written request of the City, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall sell or otherwise dispose of all or a portion of the cash or Escrow Securities held in the 1996 Escrow Fund hereunder and substitute therefor other securities, now or hereafter authorized, both the interest on and principal of which are guaranteed by the full faith and credit of the United States of America (the "Substituted

Investments”). The Escrow Agent shall purchase such Substituted Investments with the proceeds derived from the sale, transfer, disposition or redemption of the securities in the 1996 Escrow Fund; provided, that the substitution of investments described above may be effected only after the Escrow Agent receives (i) an opinion of nationally recognized bond counsel to the effect that such termination, disposition and substitution will not result in the inclusion of interest payable on any of the Refunding Certificates or 1996 Certificates in gross income for federal income tax purposes and (ii) a report of nationally recognized independent certified public accountants to the effect that such substitution will not adversely affect the sufficiency of the amount of securities, investments and money on deposit in the 1996 Escrow Fund to provide for the redemption of the 1996 Certificates on the Redemption Date. The Escrow Agent shall not be liable or responsible for any loss resulting from any disposition or substitution made pursuant to the Escrow Agreement and in full compliance with the provisions hereof.

Section 7. Fees and Costs of the Escrow Agent.

(a) The rights, duties and obligations of the Escrow Agent shall, except as otherwise expressly provided herein, be governed by the rights, duties and obligations of the Trustee pursuant to the 1996 Indenture of Trust . The annual fees and costs of the Trustee for any other duties to be carried out by it under the 1996 Indenture of Trust shall continue as previously agreed upon between the Trustee and the City.

(b) The Escrow Agent shall be entitled to payment by the City of reasonable fees and reimbursements for costs incurred in connection with the performance of its rights and duties hereunder, including but not limited to legal and accountants' services in connection with any litigation not arising from the Escrow Agent's negligence or misconduct which may at any time be instituted involving the Escrow Agreement.

(c) The fees of and the costs incurred by the Escrow Agent shall in no event be deducted or payable from or constitute a lien against the 1996 Escrow Fund.

(d) The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Agent will furnish the City periodic transaction statements which include detail for all investment transactions made by the Escrow Agent hereunder; provided that the Escrow Agent is not obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

Section 8. Indemnification. The City, to the extent allowed by law, hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and hold harmless the Escrow Agent and its respective successors, assigns, agents and servants from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including legal fees and disbursements whether incurred prior to trial, at trial, or on appeal or in any bankruptcy or arbitration proceedings) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, at any time, the Escrow Agent (whether or not also indemnified against by the City or any other person under any other agreement or instrument) and in any way relating to or arising

out of the execution and delivery of the Escrow Agreement, the establishment of the 1996 Escrow Fund, the retention of the money therein and any payment, transfer or other application of money or securities by the Escrow Agent in accordance with the provisions of the Escrow Agreement, or as may arise by reason of any act, omission or error of the Escrow Agent made in good faith in the conduct of its duties; provided, that the City shall not be required to indemnify the Escrow Agent against its own negligence or misconduct. The indemnities contained in this section shall survive the termination of the Escrow Agreement.

Section 9. Resignation of the Escrow Agent. The Escrow Agent may resign and be discharged of its duties hereunder if and at such time as the Trustee shall resign or be discharged as trustee under the 1996 Indenture of Trust in accordance with the provisions of the 1996 Indenture of Trust . Any successor trustee under the 1996 Indenture of Trust shall succeed as the Escrow Agent under the Escrow Agreement.

Section 10. Merger or Consolidation of the Escrow Agent. Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business, as long as such company shall be eligible under the 1996 Indenture of Trust , shall be the successor hereunder to the Escrow Agent without the execution or filing of any paper or any further act.

Section 11. Termination; Unclaimed Money. The Escrow Agreement shall terminate when the interest and principal on the 1996 Certificates has been paid as provided in Section 2 hereof and the 1996 Certificates have been redeemed as provided in Section 2 hereof; provided, that all money held by the Escrow Agent in the 1996 Escrow Fund for the payment and discharge of any of the 1996 Certificates which remains unclaimed shall be disposed of in accordance with the terms of the 1996 Indenture of Trust .

Section 12. Capacity of Trustee. The Escrow Agent is entering into the Escrow Agreement in its capacity as Trustee under the 1996 Indenture of Trust. Subject to the provisions of Sections 5, 6 and 11 hereof, all money held by the Escrow Agent hereunder is to be held and applied for the payment and the redemption of the 1996 Certificates in accordance with the 1996 Indenture of Trust.

Section 13. Tax-Exempt Nature of Interest on the Refunding Certificates. The City covenants and agrees for the benefit of the registered owners of the Refunding Certificates that it will not perform or permit to be performed any thing or act in such manner as would cause interest on the Refunding Certificates to be included in the gross income of the recipients thereof for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"), and, in particular, it will not use any of the proceeds received from the sale of the Refunding Certificates, directly or indirectly, in any manner which would result in the Refunding Certificates being classified as "arbitrage bonds" within the meaning of Section 148(a) of the Code.

Section 14. Severability. If any section, paragraph, sentence, clause or provision of the Escrow Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, sentence, clause or provision shall not affect any of the remaining provisions of the Escrow Agreement.

Section 15. Amendment. The parties hereto may, without the consent of or notice to the holders of the 1996 Certificates, enter into such agreements supplemental to the Escrow Agreement as shall not adversely affect the rights of such holders hereunder and shall not be inconsistent with the terms and provisions of the Escrow Agreement, for any one or both of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Escrow Agreement;
and
- (b) to grant or confer upon the Escrow Agent, for the benefit of the holders of the Refunding Certificates, any additional rights, remedies, powers or City that may lawfully be granted to or conferred upon the Escrow Agent.

The Escrow Agent shall enter into such agreements only upon receipt of, and shall be entitled to rely conclusively upon, an opinion of nationally recognized bond counsel to the effect that any such agreement complies with this section, and does not adversely affect the rights of the holders of the Refunding Certificates.

Section 16. Execution in Counterpart. The Escrow Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 17. Notice to the Escrow Agent and the City. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the corporate trust office of the Escrow Agent at _____, or as otherwise specified by the Escrow Agent in accordance with the provisions of the Indentures. Any notice to or demand upon the City shall be deemed to have been sufficiently given or served for all purposes by being mailed by first class mail, and deposited, postage prepaid, in a post office letter box, addressed to the City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266, Attention: Director of Finance (or at such other address as may have been filed in writing by the City with the Trustee).

Section 18. Governing Law. The Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the City and the Escrow Agent have each caused the Escrow Agreement to be signed in its name by its duly authorized officer all as of the day and year first above written.

CITY OF MANHATTAN BEACH, CALIFORNIA

By _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
Escrow Agent

By _____
Authorized Officer

EXHIBIT A

ESCROW SECURITIES

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Price	Total Cost
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**EXHIBIT B
FORM OF REDEMPTION NOTICE**

Attachment "J"

**CITY OF MANHATTAN BEACH
CERTIFICATES OF PARTICIPATION
(1996 WATER AND WASTEWATER IMPROVEMENT PROJECT)**

NOTICE IS HEREBY GIVEN to the registered owners of the above-referenced certificates identified in the table below (the "Certificates") issued under the Trust Agreement, dated as of September 1, 1996, between the City and U.S. Bank National Association, as trustee with respect to the 1996 Certificates (the "1996 Indenture of Trust"), the Certificates (which were originally executed and delivered on September 25, 1996) have been called for redemption on July __, 2012 (the "Redemption Date") at a redemption price of 100% of the principal amount thereof (the "Redemption Price"), together with the accrued interest thereon to the Redemption Date.

<u>Payment Date (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number</u> [†]
2015	\$730,000	5.625%	
2020	985,000	5.750	
2026	1,655,000	5.800	

Interest on the Certificates shall cease to accrue from and after the Redemption Date. Payment of the Redemption Price will become due and payable on the Redemption Date upon presentation and surrender of the Certificates, in person or by mail, at the office of the Trustee, as follows:

U.S. BANK NATIONAL ASSOCIATION
[REDEMPTION ADDRESS]

If the Certificates are mailed, the use of registered, insured mail is recommended.

Withholding of 28% of gross redemption proceeds of any payment made within the United States may be required by the Jobs and Growth Tax Relief Reconciliation Act of 1996 (the "Act"), unless the Trustee 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.

Dated: June __, 2012.

**CITY OF MANHATTAN BEACH,
CALIFORNIA**

By U.S. Bank National Association, as
Trustee

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2010 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Trustee take any responsibility for the accuracy of such numbers.

SOURCES AND USES OF FUNDS

City of Manhattan Beach
 2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Dated Date 07/11/2012
 Delivery Date 07/11/2012

Sources:	2012 Refunding COPs (Metlox)	2012 Refunding COPs (Water/Wastewater)	Total
Bond Proceeds:			
Par Amount	10,185,000.00	2,760,000.00	12,945,000.00
Net Premium/OID	480,134.40	196,415.05	676,549.45
	<u>10,665,134.40</u>	<u>2,956,415.05</u>	<u>13,621,549.45</u>
Other Sources of Funds:			
Prior DSRF (2003)	871,500.00		871,500.00
Prior DSRF (1996)		338,565.59	338,565.59
Prior Debt Service Funds		67,302.99	67,302.99
	<u>871,500.00</u>	<u>405,868.58</u>	<u>1,277,368.58</u>
	<u>11,536,634.40</u>	<u>3,362,283.63</u>	<u>14,898,918.03</u>

Uses:	2012 Refunding COPs (Metlox)	2012 Refunding COPs (Water/Wastewater)	Total
Refunding Escrow Deposits:			
Cash Deposit	0.40	0.51	0.91
SLGS Purchases	11,384,024.00	3,322,207.00	14,706,231.00
	<u>11,384,024.40</u>	<u>3,322,207.51</u>	<u>14,706,231.91</u>
Delivery Date Expenses:			
Cost of Issuance	95,870.41	25,979.59	121,850.00
Underwriter's Discount	54,421.24	14,081.68	68,502.92
	<u>150,291.65</u>	<u>40,061.27</u>	<u>190,352.92</u>
Other Uses of Funds:			
Additional Proceeds	2,318.35	14.85	2,333.20
	<u>11,536,634.40</u>	<u>3,362,283.63</u>	<u>14,898,918.03</u>

BOND PRICING

City of Manhattan Beach
2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Premium (-Discount)	Takedown
Serials due 2033:										
	01/01/2013	430,000	2.500%	0.650%	100.870				3,741.00	1,250
	01/01/2014	510,000	3.000%	0.980%	102.945				15,019.50	2,500
	01/01/2015	530,000	4.000%	1.260%	106.648				35,234.40	2,500
	01/01/2016	550,000	4.000%	1.460%	108.568				47,124.00	2,500
	01/01/2017	575,000	4.000%	1.750%	109.637				55,412.75	2,500
	01/01/2018	600,000	4.000%	2.010%	110.262				61,572.00	2,500
	01/01/2019	625,000	4.000%	2.270%	110.358				64,737.50	2,500
	01/01/2020	650,000	4.000%	2.530%	109.950				64,675.00	3,000
	01/01/2021	675,000	4.000%	2.750%	109.389				63,375.75	3,000
	01/01/2022	705,000	4.000%	2.900%	109.053				63,823.65	3,000
	01/01/2023	730,000	4.000%	3.100%	107.337 C	3.171%	01/01/2022	100.000	53,560.10	3,000
	01/01/2024	770,000	4.000%	3.330%	105.403 C	3.426%	01/01/2022	100.000	41,603.10	3,000
	01/01/2025	805,000	4.000%	3.500%	104.000 C	3.599%	01/01/2022	100.000	32,200.00	3,000
	01/01/2026	835,000	4.000%	3.580%	103.347 C	3.683%	01/01/2022	100.000	27,947.45	3,500
	01/01/2027	595,000	4.000%	3.660%	102.700 C	3.756%	01/01/2022	100.000	16,065.00	3,500
	01/01/2028	620,000	4.000%	3.740%	102.056 C	3.823%	01/01/2022	100.000	12,747.20	3,500
	01/01/2029	645,000	4.000%	3.810%	101.497 C	3.876%	01/01/2022	100.000	9,655.65	3,500
	01/01/2030	670,000	4.000%	3.880%	100.942 C	3.925%	01/01/2022	100.000	6,311.40	3,500
	01/01/2031	700,000	4.000%	3.950%	100.390 C	3.970%	01/01/2022	100.000	2,730.00	3,500
	01/01/2032	725,000	4.000%	4.010%	99.864				-986.00	3,500
		12,945,000							676,549.45	

Dated Date	07/11/2012
Delivery Date	07/11/2012
First Coupon	01/01/2013
Par Amount	12,945,000.00
Premium	676,549.45
Production	13,621,549.45
Underwriter's Discount	-68,502.92
Purchase Price	13,553,046.53
Accrued Interest	104.697154%
Net Proceeds	13,553,046.53

SUMMARY OF REFUNDING RESULTS

City of Manhattan Beach
2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Dated Date	07/11/2012
Delivery Date	07/11/2012
Arbitrage yield	3.328673%
Escrow yield	0.126950%
Bond Par Amount	12,945,000.00
True Interest Cost	3.433436%
Net Interest Cost	3.547403%
Average Coupon	3.992278%
Average Life	10.558
Par amount of refunded bonds	14,365,000.00
Average coupon of refunded bonds	5.065190%
Average life of refunded bonds	11.312
PV of prior debt to 07/11/2012 @ 3.328673%	16,684,096.31
Net PV Savings	2,291,385.23
Percentage savings of refunded bonds	15.951168%
Percentage savings of refunding bonds	17.700929%

SAVINGS

 City of Manhattan Beach
 2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 07/11/2012 @ 3.3286730%
01/01/2013	819,268.13	67,302.99	751,965.14	669,062.50	82,902.64	83,065.05
01/01/2014	1,177,942.52		1,177,942.52	1,005,500.00	172,442.52	169,294.99
01/01/2015	1,181,386.26		1,181,386.26	1,010,200.00	171,186.26	162,609.67
01/01/2016	1,183,667.52		1,183,667.52	1,009,000.00	174,667.52	160,434.00
01/01/2017	1,183,873.76		1,183,873.76	1,012,000.00	171,873.76	152,799.88
01/01/2018	1,187,186.26		1,187,186.26	1,014,000.00	173,186.26	148,906.50
01/01/2019	1,183,548.76		1,183,548.76	1,015,000.00	168,548.76	140,287.96
01/01/2020	1,188,246.26		1,188,246.26	1,015,000.00	173,246.26	139,400.32
01/01/2021	1,186,052.50		1,186,052.50	1,014,000.00	172,052.50	133,913.80
01/01/2022	1,191,790.00		1,191,790.00	1,017,000.00	174,790.00	131,541.46
01/01/2023	1,190,360.00		1,190,360.00	1,013,800.00	176,560.00	128,483.83
01/01/2024	1,197,110.00		1,197,110.00	1,024,600.00	172,510.00	121,489.62
01/01/2025	1,200,240.00		1,200,240.00	1,028,800.00	171,440.00	116,807.50
01/01/2026	1,200,960.00		1,200,960.00	1,026,600.00	174,360.00	114,809.72
01/01/2027	1,204,310.00	338,565.59	865,744.41	753,200.00	112,544.41	70,370.66
01/01/2028	865,000.00		865,000.00	754,400.00	110,600.00	66,790.39
01/01/2029	867,750.00		867,750.00	754,600.00	113,150.00	66,065.85
01/01/2030	863,750.00		863,750.00	753,800.00	109,950.00	62,084.70
01/01/2031	868,250.00		868,250.00	757,000.00	111,250.00	60,735.72
01/01/2032	865,750.00		865,750.00	754,000.00	111,750.00	58,984.73
01/01/2033	871,500.00	871,500.00				175.69
	22,677,941.97	1,277,368.58	21,400,573.39	18,401,562.50	2,999,010.89	2,289,052.03

Savings Summary

PV of savings from cash flow	2,289,052.03
Plus: Refunding funds on hand	2,333.20
Net PV Savings	2,291,385.23

COST OF ISSUANCE

City of Manhattan Beach
2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Cost of Issuance	\$/1000	Amount
Bond / Disclosure Counsel	4.63499	60,000.00
Financial Advisor	2.70375	35,000.00
Financial Advisor Expenses	0.07725	1,000.00
S&P Rating Fee	1.08150	14,000.00
Printing	0.11201	1,450.00
Trustee	0.41715	5,400.00
Verification Agent	0.19312	2,500.00
Miscellaneous	0.19312	2,500.00
	9.41290	121,850.00

UNDERWRITER'S DISCOUNT

City of Manhattan Beach
2012 Refunding COPs (Metlox & Water/Wastewater Projects) (No DSRF)

Underwriter's Discount	\$/1000	Amount
Average Takedown	2.99594	38,782.50
Expenses	2.29590	29,720.42
	5.29184	68,502.92

DETAILED BOND DEBT SERVICE

 City of Manhattan Beach
 2012 Refunding COPs (Metlox)

Serials due 2033

Period Ending	Principal	Coupon	Interest	Debt Service
01/01/2013	350,000	2.500%	188,251.39	538,251.39
01/01/2014	350,000	3.000%	389,900.00	739,900.00
01/01/2015	365,000	4.000%	379,400.00	744,400.00
01/01/2016	380,000	4.000%	364,800.00	744,800.00
01/01/2017	395,000	4.000%	349,600.00	744,600.00
01/01/2018	415,000	4.000%	333,800.00	748,800.00
01/01/2019	430,000	4.000%	317,200.00	747,200.00
01/01/2020	445,000	4.000%	300,000.00	745,000.00
01/01/2021	465,000	4.000%	282,200.00	747,200.00
01/01/2022	485,000	4.000%	263,600.00	748,600.00
01/01/2023	500,000	4.000%	244,200.00	744,200.00
01/01/2024	530,000	4.000%	224,200.00	754,200.00
01/01/2025	550,000	4.000%	203,000.00	753,000.00
01/01/2026	570,000	4.000%	181,000.00	751,000.00
01/01/2027	595,000	4.000%	158,200.00	753,200.00
01/01/2028	620,000	4.000%	134,400.00	754,400.00
01/01/2029	645,000	4.000%	109,600.00	754,600.00
01/01/2030	670,000	4.000%	83,800.00	753,800.00
01/01/2031	700,000	4.000%	57,000.00	757,000.00
01/01/2032	725,000	4.000%	29,000.00	754,000.00
	10,185,000		4,593,151.39	14,778,151.39

SUMMARY OF REFUNDING RESULTS

City of Manhattan Beach
2012 Refunding COPs (Metlox)

Dated Date	07/11/2012
Delivery Date	07/11/2012
Arbitrage yield	3.328673%
Escrow yield	0.131239%
Bond Par Amount	10,185,000.00
True Interest Cost	3.520460%
Net Interest Cost	3.623242%
Average Coupon	3.993365%
Average Life	11.293
Par amount of refunded bonds	11,125,000.00
Average coupon of refunded bonds	4.923961%
Average life of refunded bonds	12.202
PV of prior debt to 07/11/2012 @ 3.328673%	12,825,646.84
Net PV Savings	1,593,165.79
Percentage savings of refunded bonds	14.320591%
Percentage savings of refunding bonds	15.642276%

SAVINGS

 City of Manhattan Beach
 2012 Refunding COPs (Metlox)

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 07/11/2012 @ 3.3286730%
01/01/2013	591,079.38		591,079.38	538,251.39	52,827.99	52,010.82
01/01/2014	854,158.76		854,158.76	739,900.00	114,258.76	109,862.95
01/01/2015	855,758.76		855,758.76	744,400.00	111,358.76	103,600.33
01/01/2016	856,758.76		856,758.76	744,800.00	111,958.76	100,775.50
01/01/2017	856,246.26		856,246.26	744,600.00	111,646.26	97,231.09
01/01/2018	859,621.26		859,621.26	748,800.00	110,821.26	93,379.25
01/01/2019	856,621.26		856,621.26	747,200.00	109,421.26	89,206.80
01/01/2020	857,531.26		857,531.26	745,000.00	112,531.26	88,727.75
01/01/2021	857,412.50		857,412.50	747,200.00	110,212.50	84,078.82
01/01/2022	860,800.00		860,800.00	748,600.00	112,200.00	82,783.91
01/01/2023	858,000.00		858,000.00	744,200.00	113,800.00	81,207.92
01/01/2024	864,250.00		864,250.00	754,200.00	110,050.00	75,981.68
01/01/2025	862,750.00		862,750.00	753,000.00	109,750.00	73,286.30
01/01/2026	865,000.00		865,000.00	751,000.00	114,000.00	73,599.92
01/01/2027	865,750.00		865,750.00	753,200.00	112,550.00	70,277.32
01/01/2028	865,000.00		865,000.00	754,400.00	110,600.00	66,790.39
01/01/2029	867,750.00		867,750.00	754,600.00	113,150.00	66,065.85
01/01/2030	863,750.00		863,750.00	753,800.00	109,950.00	62,084.70
01/01/2031	868,250.00		868,250.00	757,000.00	111,250.00	60,735.72
01/01/2032	865,750.00		865,750.00	754,000.00	111,750.00	58,984.73
01/01/2033	871,500.00	871,500.00				175.69
	17,823,738.20	871,500.00	16,952,238.20	14,778,151.39	2,174,086.81	1,590,847.44

Savings Summary

PV of savings from cash flow	1,590,847.44
Plus: Refunding funds on hand	2,318.35
Net PV Savings	1,593,165.79

DETAILED BOND DEBT SERVICE

 City of Manhattan Beach
 2012 Refunding COPs (Water/Wastewater)

Serials due 2033

Period Ending	Principal	Coupon	Interest	Debt Service
01/01/2013	80,000	2.500%	50,811.11	130,811.11
01/01/2014	160,000	3.000%	105,600.00	265,600.00
01/01/2015	165,000	4.000%	100,800.00	265,800.00
01/01/2016	170,000	4.000%	94,200.00	264,200.00
01/01/2017	180,000	4.000%	87,400.00	267,400.00
01/01/2018	185,000	4.000%	80,200.00	265,200.00
01/01/2019	195,000	4.000%	72,800.00	267,800.00
01/01/2020	205,000	4.000%	65,000.00	270,000.00
01/01/2021	210,000	4.000%	56,800.00	266,800.00
01/01/2022	220,000	4.000%	48,400.00	268,400.00
01/01/2023	230,000	4.000%	39,600.00	269,600.00
01/01/2024	240,000	4.000%	30,400.00	270,400.00
01/01/2025	255,000	4.000%	20,800.00	275,800.00
01/01/2026	265,000	4.000%	10,600.00	275,600.00
	2,760,000		863,411.11	3,623,411.11

SUMMARY OF REFUNDING RESULTS

City of Manhattan Beach
2012 Refunding GOPs (Water/Wastewater)

Dated Date	07/11/2012
Delivery Date	07/11/2012
Arbitrage yield	3.328673%
Escrow yield	0.040815%
Bond Par Amount	2,760,000.00
True Interest Cost	3.008334%
Net Interest Cost	3.144645%
Average Coupon	3.986508%
Average Life	7.847
Par amount of refunded bonds	3,240,000.00
Average coupon of refunded bonds	5.781726%
Average life of refunded bonds	8.258
PV of prior debt to 07/11/2012 @ 3.328673%	3,858,449.48
Net PV Savings	698,219.44
Percentage savings of refunded bonds	21.549983%
Percentage savings of refunding bonds	25.297806%

SAVINGS

 City of Manhattan Beach
 2012 Refunding COPs (Water/Wastewater)

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 07/11/2012 @ 3.3286730%
01/01/2013	228,188.75	67,302.99	160,885.76	130,811.11	30,074.65	31,054.22
01/01/2014	323,783.76		323,783.76	265,600.00	58,183.76	59,432.04
01/01/2015	325,627.50		325,627.50	265,800.00	59,827.50	59,009.34
01/01/2016	326,908.76		326,908.76	264,200.00	62,708.76	59,658.50
01/01/2017	327,627.50		327,627.50	267,400.00	60,227.50	55,568.79
01/01/2018	327,565.00		327,565.00	265,200.00	62,365.00	55,527.25
01/01/2019	326,927.50		326,927.50	267,800.00	59,127.50	51,081.16
01/01/2020	330,715.00		330,715.00	270,000.00	60,715.00	50,672.57
01/01/2021	328,640.00		328,640.00	266,800.00	61,840.00	49,834.98
01/01/2022	330,990.00		330,990.00	268,400.00	62,590.00	48,757.55
01/01/2023	332,360.00		332,360.00	269,600.00	62,760.00	47,275.91
01/01/2024	332,860.00		332,860.00	270,400.00	62,460.00	45,507.94
01/01/2025	337,490.00		337,490.00	275,800.00	61,690.00	43,521.19
01/01/2026	335,960.00		335,960.00	275,600.00	60,360.00	41,209.80
01/01/2027	338,560.00	338,565.59	-5.59		-5.59	93.34
	4,854,203.77	405,868.58	4,448,335.19	3,623,411.11	824,924.08	698,204.59

Savings Summary

PV of savings from cash flow	698,204.59
Plus: Refunding funds on hand	14.85
Net PV Savings	698,219.44

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Manhattan Beach (the "City") in connection with the execution and delivery of \$_____ City of Manhattan Beach Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of June 1, 2012, by and among the City, U.S. Bank National Association, as trustee (the "Trustee") and the Manhattan Beach Capital Improvements Corporation (the "Corporation"). The City covenants as follows:

1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

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

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the City Manager or the Director of Finance, or their respective designees, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated June __, 2012.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

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

"State" shall mean the State of California.

3. Provision of Annual Reports.

(a) The City shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than 210 days after the end of the City's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2012, provide to the MSRB through the EMMA system, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the City for the most recent fiscal year of the City then ended; and (ii) to the extent not included in the information in (i) above an update of the information in Tables __ through ____ in the Official Statement for the Certificates. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the City shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify the basis upon which its financial statements are prepared, the City shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) 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 have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

5. Reporting of Significant Events. (a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not more than ten (10) business days after the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
2. Modifications to rights of Certificate holders;
3. Optional, unscheduled or contingent Certificate calls;
4. Release, substitution, or sale of property securing repayment of the Certificates;
5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in subsection 5(b), the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

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

7. 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 Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Certificates 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 Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply with this Disclosure Agreement shall be an action to compel performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:	City of Manhattan Beach 1400 Highland Avenue Manhattan Beach, California 90266 Attention: Attention: City Manager Telephone: (310) 802-5053 Fax: (310) 802-5001
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To the Dissemination Agent:	U.S. Bank National Association
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633 W. Fifth Street, 24th Floor
Los Angeles, CA 90071
Attention: Corporate Trust Services
Ref: City of Manhattan Beach
Telephone: (213) 615-6023
Fax: (213) 615-6199

13. Beneficiaries. This Disclosure Agreement solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

Dated: June __, 2012

CITY OF MANHATTAN BEACH,
CALIFORNIA

By: _____
Bruce Moe
Director of Finance

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Manhattan Beach, California

Name of Issue: Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012

Date of Issuance: June __, 2012

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Certificates of Participation as required by the Continuing Disclosure Agreement dated June __, 2012. The Issuer anticipates that the Annual Report will be filed by

Dated:

[ISSUER/DISSEMINATION AGENT]

By: _____