

**TO: HONORABLE CITY COUNCIL**

**FROM: CITY MANAGER**

**DEPARTMENT: ADMINISTRATIVE  
SERVICES**

**DATE: MAY 10, 2010**

**CMR:242:10**

**SUBJECT: Adoption of a Resolution Authorizing the Issuance and Sale of its General Obligation Bonds For Measure N Projects in the Principal Amount of Not to Exceed \$60,000,000, Authorizing and Directing the Execution of a Paying Agent Agreement, and Certain Other Related Documents, and Authorizing Official Actions Related Thereto**

**RECOMMENDATION:**

Staff recommends that the City Council approve the attached resolution (Attachment A), to:

- 1) Authorize staff to issue and sell General Obligation Bonds for Measure N Projects in an amount not to exceed \$60,000,000, to finance City library and community center capital improvements.
- 2) Approve Paying Agent Agreement, Official Notice of Sale, Official Statement; and authorize official actions related thereto.

**BACKGROUND**

On November 4, 2008, City voters passed Measure N which gave the City the authority to issue a maximum amount of \$76,000,000 million of General Obligation bonds (the "Bonds") for capital improvements to the Mitchell Park, Downtown, and Main libraries and to the Mitchell Park community center. Construction is set to begin on the Downtown Library and the Mitchell Park facilities this summer. Construction costs, as well as eligible design and temporary facility costs incurred to date, will be paid out of bond proceeds, with the exception of \$1.5 million in expenses for feasibility studies and preliminary design work that Council previously determined would be borne by the City.

Additionally, costs for a temporary facility for the Main Library are eligible to be paid from bond proceeds. These costs, however, will require approval by the Council as indicated on April 12, 2010 (CMR:209:10). Staff will provide site and development costs to Council prior to a decision on whether to move forward with the temporary quarters.

**DISCUSSION**

Staff is returning to Council for approval of the attached resolution (Attachment A) which: 1) authorizes the issuance and sale of up to a maximum of \$60,000,000 in the first series of Bonds

("Series 2010A Bonds"), 2) approves the required financial documents (Exhibits A, B, and C) which are discussed below, and 3) grants staff the authority to take all necessary actions related to the sale of the Series 2010A Bonds.

The upcoming sale, slated for June 9, 2010, will be the first of two series of Bond issues. The Series 2010A Bonds, to be issued in an amount not to exceed \$60,000,000, will cover:

- Design, engineering, and contract management costs through April 26, 2010 of \$4,988,000
- Future, estimated permit, construction management, and construction costs for the Mitchell Park Library and Community Center (MPLCC) and Downtown Library improvements
- Temporary facility costs for MPLCC
- Design and construction administration fees for the Main Library as well as design and construction management expenses for a temporary Main Library

The estimated costs for a temporary Main Library facility are included in the initial bond sale so that design and construction can proceed if Council elects to go forward with this work.

Attachment B shows the estimates for each project component and total project requirements which equal \$58.5 million. Staff is requesting the authority to issue up to \$60,000,000 in the unlikely event Public Works' estimates should change between now and May 26 when the bond sale notices are published and sent to potential purchasers. It is staff's full intent to issue a par amount of \$58.5 million unless there is dramatic change in cost estimates.

Unlike previous City bond sales, the costs of issuance such as underwriter fees will be paid through a "premium" instead of paying these costs using bond proceeds. This is a consequence of legal requirements that the bonds be sold at competitive sale **and** that bids be for not less than the par amount of the bonds. The effect of this requirement is that the only way for the underwriter to be compensated is from a "premium" which is not considered part of the bond proceeds. The "premium" is generated by having the coupon rate higher than the bond yield. Mathematically, the results are substantially the same as if the City paid for issuance costs through the proceeds of bonds. The staff presentation on May 10, 2010 will include an illustration of how the "premium" works. Based on a par offering of \$58.5 million, the underwriter's fee is estimated at \$468,000 and other issuance costs (e.g., bond counsel, disclosure counsel) are estimated at \$260,000 for a total of \$728,000 (Attachment B).

For each library, construction cost estimates were prepared by a professional cost-estimating company, Davis Langdon Associates and a second, independent cost estimate was prepared by the City's construction management firm, Turner Construction. These two estimates had less than a 5 percent discrepancy between them and were later compared and reconciled into a unified construction cost estimate. The actual construction costs for the Downtown Library and MPLCC will not be known until construction bids are opened after the initial bond sale. While this is not the optimal scenario, sufficient data was available to estimate costs for the bond issue. Moreover, the timing of the bond sale will avoid capitalized interest expense and allow the City to place assessments on the County tax rolls for 2010-2011.

It is important to note that if the proceeds of the Series 2010A Bonds exceed actual costs for the first group of projects, those funds will be carried forward for the Main Library project. Unused project funds will earn interest and will reduce the amount needed for the second and final series of Bonds. The second bond series will be used for the construction phase of the Main Library (e.g., permits, testing, and construction).

To move forward with a competitive bond sale, Council must approve the attached resolution (Attachment A) which authorizes the issuance and sale of the Series 2010A Bonds, and authorizes various City officials to sign and execute documents related to the issuance and sale of the Series 2010A Bonds. The resolution approves the following documents:

- Paying Agent Agreement which outlines the responsibilities of the City and U.S. Bank in all financial transactions related to receipt of bond proceeds, disbursement of funds, payment of debt service, and payments to bond holders (Exhibit A)
- An official Notice of Sale, which describes the Series 2010A Bonds to the investment community (potential bidders), for the purpose of seeking bids to be received *via* an electronic platform, on or around June 9, 2010 (Exhibit B)
- Preliminary Official Statement containing and discussing information about the City, its economic and property tax base, the Series 2010A Bonds, and other information material to the offering and sale of the Series 2010A Bonds, which is being approved by the Council as being in "nearly final" form (i.e., it is complete, except for the interest rates and amount of final numbers which will result from the sale of the Series 2010A Bonds)(Exhibit C)

The interest rate on the principal amount of the Series 2010A Bond sold is determined through a competitive bid on the day of the bond sale and under prevailing market conditions. When the interest rate is established, annual debt service payments will be calculated and used to determine the 2010-11 assessment for Palo Alto property owners. Staff will then be ready to inform as to the assessment per \$100,000 of property value for the first series of bonds.

To minimize interest expense and to promote the bond issue, staff will deliver a ratings presentation to Moody's and Standard and Poor's (S&P) on May 11 and 12, respectively. The City Manager and staff from the Administrative Services, Public Works, and Library departments, as well as the City's financial advisor and bond counsel, will participate in the presentation. Information on City demographics, property values, businesses, educational institutions, and financial condition will be provided to the rating agencies.

This information is factored into each agency's credit rating, which investors use in determining whether or not to buy the City's bonds. A high credit rating results in lower interest costs and vice versa. The current underlying issuer credit rating for the City's General Fund is triple A from Standard and Poor's, the highest possible. The rating on a recent City of Palo Alto Utility Water Revenue Bond was triple A. As soon as the ratings are received, staff will relay the results to Council and the public.

The timeline for selling bonds, receiving bond proceeds, and placing assessments on the county role is provided below. The schedule includes dates on which construction bids and start dates are anticipated. In order to meet the County's early August requirement for property assessment information, staff must complete the bond sale in early June. Receiving Council approval tonight is critical to achieving this timeline.

### **RESOURCE IMPACT**

Pending Council approval, the City will issue First Series General Obligation bonds in an amount not to exceed \$60,000,000. Unless there is a dramatic change in cost estimates, the par amount of bonds to be issued will likely be \$58,500,000. The costs of issuance, estimated at \$728,000 will be paid through a "premium" that is discussed above. Debt service and the impact or assessment on property owners will not be determined until the bonds are sold by competitive bid to an underwriter, on or around June 9, 2010.

### **POLICY IMPLICATIONS**

This report is consistent with prior policy direction received from Council.

### **TIME LINE**

Attachment C shows, in flow diagram format, the key milestone dates leading to the construction of the library and community center projects.

May 10, 2010	City Council Action on Financing Documents to Issue Bonds
May 11, 2010	Bid Due Date for Downtown Library Work
May 11-12, 2010	Ratings Presentation to S&P and Moody's
May 25, 2010	Ratings Received
May 26, 2010	Bond Sale Notices Published Final "Estimated Bond Size" Amount Determined
May 27, 2010	Preliminary Official Statement/Underwriter Bid Form Finalized and Circulated
June 7, 2010	Council Awards Construction Contract for Downtown Library Work
June 8, 2010	Bid Due Date for Mitchell Park Facilities
June 9, 2010	Bids Received/Bonds Priced and Bonds Awarded to Winning Bidder
June 21, 2010	Council Award Construction Contract for Mitchell Park facilities
June 28, 2010	Downtown Construction Begins
June 29-30, 2010	Close Bond Issue and Receive Bond Proceeds

July 12, 2010                      Mitchell Park Construction Begins

Late July                              Send Property Assessments to County

### **ENVIRONMENTAL REVIEW**

On July 21, 2008, the Council confirmed the Director of Planning and Community Environment's (PCE) approvals of a Mitigated Negative Declaration (MND) for the Mitchell Park Library and Community Center and a 2007 Addendum to the 2002 final Environmental Impact Report (EIR) for Main Library. The Downtown Library project was determined to be exempt from CEQA review pursuant to Section 15301, "existing facilities."

### **ATTACHMENTS**

Attachment A: Resolution Authorizing the Issuance and Sale of General Obligation Bonds For Measure N Projects In An Amount Not to Exceed \$60,000,000, Authorizing and Directing the Execution of a Paying Agent Agreement, and Certain Other Related Documents, and Authorizing Official Actions Related Thereto

Exhibit A:     Paying Agent Agreement

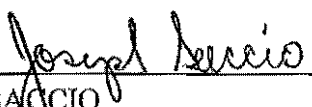
Exhibit B:     Official Notice of Sale

Exhibit C:     Preliminary Official Statement (POS) Containing and Discussing Information Material to the Offering and Sale of Bonds

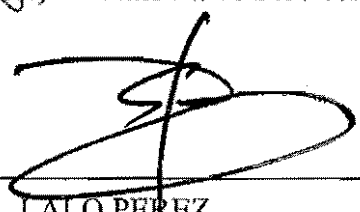
Attachment B: Project Components of Series 1 and Series 2 Bonds

Attachment C: Flow Diagram of Key Project Dates

**PREPARED BY:**

  
\_\_\_\_\_  
JOSEPH SACCIO  
Deputy Director, Administrative Services

**DEPARTMENT HEAD APPROVAL:**

  
\_\_\_\_\_  
LALO PEREZ  
Director of Administrative Services

**CITY MANAGER APPROVAL:**

  
\_\_\_\_\_  
JAMES KEENE  
City Manager

ATTACHMENT A  
\*\*\* NOT YET APPROVED \*\*\*

Resolution No. \_\_\_\_\_

Resolution of the Council of the City of Palo Alto  
Authorizing the Issuance and Sale of its General Obligation  
Bonds for Measure N Projects in the Principal Amount of  
Not to Exceed \$60,000,000, Authorizing and Directing the  
Execution of a Paying Agent Agreement and Certain Other  
Related Documents, and Authorizing Actions  
Related Thereto

WHEREAS, more than two-thirds of the qualified voters in the City of Palo Alto (the "City"), voting at a municipal election on November 4, 2008, approved the issuance of up to \$76,000,000 of general obligation bonds to finance the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems; and

WHEREAS, pursuant to the authorization received at such election, and the authorization contained in Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the "Act"), the City intends to issue the first series of the general obligation bonds authorized as described above pursuant to the Paying Agent Agreement (defined below) in a principal amount of not to exceed \$60,000,000, to be designated as the "City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A" (the "Bonds"); and

WHEREAS, the City Council of the City has duly considered such transactions and desires at this time to approve said transactions and the documents related thereto;

NOW, THEREFORE, the City Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. Approval of Paying Agent Agreement. The proposed form of paying agent agreement dated as of June 1, 2010, by and between the City and U.S. Bank National Association (the "Paying Agent"), which is on file with the City Clerk (the "Paying Agent Agreement") is hereby approved, and the City Manager and Director of Administrative Services (the "Authorized Officers", and individually, an "Authorized Officer") are hereby separately authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Paying Agent Agreement in substantially said form, with said additions thereto (including the insertion of the maturity dates, principal amounts and interest rates of the Bonds) and changes therein as the Authorized Officer may approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Council hereby authorizes the issuance of the Bonds pursuant to the Paying Agent Agreement, and the performance by the City of its obligations under the Paying Agent Agreement. The selection of U.S. Bank National Association, as Paying Agent is hereby approved and ratified.

# \*\*\* NOT YET APPROVED \*\*\*

SECTION 2. Approval of Form of Bonds. The form of Bonds set forth in Exhibit A to the Paying Agent Agreement is hereby approved, and the City Manager is hereby authorized and directed to execute the Bonds, and the City Clerk to countersign in the name and on behalf of the City and under its seal, and to cause the delivery thereof as provided for below.

SECTION 3. Sale and Issuance of Bonds. The Bonds shall be sold by competitive sale, provided that (a) the true interest cost of the Bonds shall not exceed 5.50% per annum, (b) the principal amount of the Bonds shall not exceed \$60,000,000, and (c) the final maturity date of the Bonds shall not be more than thirty-one (31) years from the date of issuance. The Authorized Officers are hereby separately authorized and directed to evidence the City's acceptance of an offer to purchase the Bonds following competitive bidding pursuant to the Official Notice of Sale relating to the competitive sale of the Bonds (the "Official Notice of Sale"). The City Council hereby approves the Official Notice of Sale in substantially the form on file with the City Clerk.

Jones Hall, A Professional Law Corporation, as bond counsel to the City, is hereby authorized and directed to cause a Notice of Intention to Sell Bonds, in form and substance acceptable to said firm, to be published once in *The Bond Buyer* in accordance with Section 53692 of the California Government Code.

SECTION 4. Approval of Preliminary and Final Official Statement. Quint & Thimmig LLP, as disclosure counsel to the City, has prepared a preliminary official statement describing the Bonds (the "Preliminary Official Statement"). The City Council hereby approves the Preliminary Official Statement in the form presented to the Council at this meeting. The Authorized Officer is hereby authorized and directed to execute a certificate to the effect that the Preliminary Official Statement was deemed "final" as of its date for purposes of Rule 15c2-12 of the Securities Exchange Act of 1934, and the Authorized Officer is hereby authorized to so deem such Preliminary Official Statement final.

The execution of the final Official Statement (the "Official Statement"), which shall include such changes and additions to the Preliminary Official Statement deemed advisable by the Authorized Officer or any other qualified officer of the City and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, shall be conclusive evidence of the approval of the Official Statement by the City. The City Council authorizes the distribution by Stone & Youngberg LLC (the "Financial Advisor") of the Official Statement to prospective purchasers of the Bonds.

The Authorized Officer is authorized and directed to execute the Official Statement and a statement that the facts contained in the Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Bonds, true and correct in all material respects and that the Official Statement did not, on the date of sale of the Bonds, and does not, as of the date of delivery of the Bonds, contain any untrue statement of a material fact with respect to the City or omit to state material facts with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. The Authorized Officer shall take such further actions prior to the signing of the Official Statement as are deemed necessary or appropriate to verify the accuracy thereof.



**\*\*\* NOT YET APPROVED \*\*\***

SECTION 5. Delegation of Authority to Authorized Officers. The Authorized Officers are hereby authorized and directed to execute, sign and deliver any and all approvals, certificates, statements, requests, requisitions and orders of the City in connection with the sale and issuance of the Bonds, the purchase of the Bonds and the other transactions described herein. The Authorized Officers may authorize such other officers of the City as they deem appropriate to undertake any of the actions which he is authorized or directed to undertake pursuant hereto.

SECTION 6. General Authority. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions described herein or to otherwise effectuate the purposes of this resolution, including preparing, or causing to be prepared, and executing all appropriate disclosure documents relating to the Bonds and agreements necessary to comply with the disclosure requirements of Rule 15c2-12, as amended, of the Securities and Exchange Commission. Any such actions previously taken by such officers are hereby ratified and confirmed.

SECTION 7. Severability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect any remaining provisions hereof.

SECTION 8. Effective Date. This resolution shall take effect from and after the date of its passage and adoption.

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**\*\*\* NOT YET APPROVED \*\*\***

SECTION 9. CEQA Finding. The Council finds that this resolution is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

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

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Administrative  
Services

I HEREBY CERTIFY that the foregoing resolution was duly and regularly passed and adopted by the City Council of the City of Palo Alto at a regular meeting thereof held on the 10th day of May, 2010 and that the foregoing is a full, true and correct copy of said Resolution.

\_\_\_\_\_  
City Clerk

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**Exhibit A**

**PAYING AGENT AGREEMENT**

**By and Between**

**CITY OF PALO ALTO**

**and**

**U.S. BANK NATIONAL ASSOCIATION,  
as Paying Agent**

**Dated as of June 1, 2010**

**Relating to**

**[\$[Principal Amount]  
City of Palo Alto  
General Obligation Bonds  
Election of 2008, Series 2010A**

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## EXHIBIT A FORM OF BOND

## **PAYING AGENT AGREEMENT**

This Paying Agent Agreement (the "**Agreement**") is made and entered into as of June 1, 2010, by and between the City of Palo Alto, a charter city organized and existing under the laws of the State of California (the "**City**") and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, as Paying Agent (the "**Paying Agent**")

### **WITNESSETH:**

**WHEREAS**, an election was duly and regularly held in the City on November 4, 2008 for the purpose of submitting to the qualified electors of said City the question whether bonds should be issued in the principal amount of not to exceed \$76,000,000 to finance the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems (the "**Project**"); and

**WHEREAS**, more than two-thirds of the votes cast at said election were in favor of the issuance of said bonds; and

**WHEREAS**, pursuant to the authorization received at such election, and the authorization contained in Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the "**Act**"), the City intends to issue its first series of general obligation bonds pursuant to a resolution adopted on May 10, 2010 (the "**City Resolution**") and this Agreement in a principal amount equal to \$[Principal Amount];

**NOW THEREFORE**, the City and the Paying Agent agree as follows:

## ARTICLE I DEFINITIONS; AUTHORITY

**Section 1.01. Definitions.** The terms defined in this Section 1.01, as used and capitalized herein, shall, for all purposes of this Agreement, have the meanings ascribed to them below, unless the context clearly requires some other meaning.

**"Act"** means, collectively, Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code, as in effect on the date of adoption hereof and as amended hereafter.

**"Articles," "Sections"** and other subdivisions are to the corresponding Articles, Sections or subdivisions of this 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 subdivision hereof.

**"Beneficial Owner"** means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories including, but not limited to, through the Nominee.

**"Bond Counsel"** means any attorney or firm of attorneys nationally recognized for expertise in rendering opinions as to the legality and tax exempt status of securities issued by public entities.

**"Bond Service Fund"** means the Series 2010A Bond Service Fund established pursuant to Section 4.04 hereof.

**"Bonds"** means the City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A, Outstanding pursuant to this Agreement.

**"Business Day"** means a day which is not a Saturday or Sunday or a day on which banks in San Francisco and Los Angeles, California, and New York, New York, are not required or permitted to be closed.

**"City Representative"** means the City Manager, the Director of Administrative Services, or any other person authorized by resolution of the City Council of the City to act on behalf of the City with respect to this Agreement.

**"City Resolution"** has the meaning given to said term in the recitals hereto.

**"Closing Date"** means the date upon which there is an exchange of Bonds for the proceeds representing the purchase price of the Bonds by the Purchaser.

**"Code"** means the Internal Revenue Code of 1986.



**"Continuing Disclosure Certificate"** means that certain Continuing Disclosure Certificate dated the Closing Date and executed by the City, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**"Contractor"** means the contractor(s) or vendor(s) from whom the City has ordered or caused to be ordered or with whom the City has contracted or caused to be contracted with respect to the construction of the Project, or any portion of the Project.

**"Costs of Issuance Account"** means the account of that name established and held by the Paying Agent as provided in Section 4.05.

**"Debt Service"** means the scheduled amount of interest and principal, including principal paid pursuant to mandatory sinking fund redemption, payable on the Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

**"Debt Service Fund"** means the Series 2010A Debt Service Fund established pursuant to Section 4.02 hereof.

**"Depository"** means any securities depository appointed to act as Depository under Section 2.13 hereof.

**"Fair Market Value"** means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest if the return paid by the fund is without regard to the source of investment.

**"Federal Securities"** means Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**"Issuance Expenses"** means all items of expense directly or indirectly reimbursable to the City relating to the execution and delivery of the Bonds, including but not limited to, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, legal fees

and charges, bond insurance premiums, fees and expenses of the Paying Agent, financial and other professional consultant fees, and costs of obtaining credit ratings.

**"Moody's"** means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**"Nominee"** means the nominee of the Depository as determined from time to time in accordance with Section 2.13.

**"Outstanding,"** when used as of any particular time with reference to Bonds, means all Bonds except:

(a) Bonds theretofore canceled by the Paying Agent or surrendered to the Paying Agent for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of Section 9.03 hereof; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City pursuant to the Agreement.

**"Owner" or "Bondowner"** means any person who shall be the registered owner of any Outstanding Bond.

**"Participant"** means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as a securities depository.

**"Participating Underwriter"** has the meaning assigned to such term in the Continuing Disclosure Certificate.

**"Person"** means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**"Principal Office"** means, with respect to the Trustee, the corporate trust office of the Paying Agent at One California Street, Suite 100, San Francisco, California, Attention Corporate Trust Services (except with respect to the payment of the principal or prepayment price of the Bonds, in which case Principal Office means Corporate Trust Services of the Paying Agent, 60 Livingston Avenue, St. Paul, Minnesota, or such other location as designated by the Paying Agent.

**"Project"** has the meaning given to said term in the recitals of this Agreement.

**"Project Costs"** means:

(a) all costs of payment of, or reimbursement for, acquisition, construction, installation and equipping of the Project including, but not limited to, architect and engineering fees, Contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums, and permit fees, provided that any such costs are directly related to the acquisition or improvement of real property;

(b) Issuance Expenses not paid by the Original Purchaser from original issue premium on the Bonds; and

(c) costs directly related to the administration of the funds and accounts created under this Agreement.

**"Project Fund"** means the Series 2010A Project Fund established pursuant to Section 4.01 hereof.

**"Purchaser"** means \_\_\_\_\_

**"Regulations"** means temporary and permanent regulations promulgated under the Code.

**"S&P"** means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**"Securities Depositories"** means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 277-4039 or 4190; or, in accordance with the then current guidelines promulgated by the Securities and Exchange Commission at such other addresses and/or to such other securities depositories as the City may designate in writing to the Paying Agent.

**"Supplemental Agreement"** means any agreement supplemental to or amendatory of this Agreement entered into in accordance with Article VIII hereof.

**"Written Request of the City"** means an instrument in writing signed by the City Representative.

**Section 1.02. Authority for this Agreement.** This Agreement is being entered into pursuant to the authority set forth in the Act and the City Resolution, constitutes a continuing agreement with the Owners of all of the Bonds issued or to be issued hereunder and then Outstanding, to secure the full and final payment of principal of and premiums, if any, and the interest on the Bonds, all pursuant to the provisions of the Act.

## ARTICLE II THE BONDS

**Section 2.01. Authorization.** Bonds in the aggregate principal amount of \_\_\_\_\_ dollars (\$[Principal Amount]) are hereby authorized to be issued by the City under and subject to the terms of the Act and which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained. The Bonds shall be designated the "City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A".

### **Section 2.02. Terms of Bonds.**

(a) **Form; Numbering.** The Bonds shall be issued as fully registered Bonds, without coupons, in the denomination of \$5,000 each or any integral multiple of \$5,000, but in an amount not to exceed the aggregate principal amount of Bonds maturing in the year of maturity of the Bond for which the denomination is specified. Bonds shall be lettered and numbered as the Paying Agent shall prescribe.

(b) **Date of Bonds.** The Bonds shall be dated the Closing Date.

(c) **CUSIP Identification Numbers.** "CUSIP" identification numbers shall be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and any error or omission with respect thereto shall not constitute cause for refusal of the Purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the City to use such CUSIP numbers in any notice to Owners of the Bonds shall not constitute an event of default or any violation of the City's contract with such Owners and shall not impair the effectiveness of any such notice.

(d) **Maturities; Interest.** The Bonds shall bear interest at the rate or rates set forth below, payable on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date"), and shall mature and become payable as to principal on August 1 of the years and in the amounts as set forth below:

<b>Maturity Year (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity Year (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
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Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated as of an Interest Payment Date, in which event it shall bear interest from such date, or (ii) it is registered and authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is registered and authenticated on or prior to January 15, 2011, in which event it shall bear interest from the date of original issuance and

authentication of the Bonds; provided, however, that if at the time of registration and authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months.

(e) Payment. Interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check mailed on the applicable Interest Payment Date to the Owner thereof at his or her address as it appears on the registration books maintained by the Paying Agent at the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date, or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided that an Owner of \$1,000,000 or more aggregate principal amount of Bonds, or the Owner of all of the Bonds at the time Outstanding, shall, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such Owner to the Paying Agent no later than the fifteenth (15) day of the month immediately preceding the applicable Interest Payment Date. Principal of the Bonds is payable in lawful money of the United States of America at the Principal Office of the Paying Agent.

#### Section 2.03. Redemption.

(a) Optional Redemption. Bonds maturing on or before August 1, 20\_\_ are not subject to redemption prior to their respective maturity dates. Bonds maturing on or after August 1, 20\_\_, shall be subject to redemption prior to their respective maturity dates as a whole or in part on any date, as designated by the City and, absent any such designation, pro rata among maturities and by lot within a maturity, from moneys provided at the option of the City, in each case on and after August 1, 20\_\_, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

(b) Mandatory Sinking Fund Redemption. The Bonds maturing August 1, 20\_\_ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20\_\_, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date	Amount
<u>(August 1)</u>	

The Bonds maturing February 1, 20\_\_ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20\_\_, until their maturity on February 1, 20\_\_, at a redemption price equal to 100% of the principal

amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date  
(August 1)

Amount

(c) Redemption Procedure. The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Paying Agent and to the Securities Depositories; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds. The City has the right to rescind any notice of the redemption of Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The City and the Paying Agent have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Paying Agent shall mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent under this Section 2.03.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and shall require that such Bonds be then surrendered at the Principal Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Paying Agent shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

From and after the date fixed for redemption, if notice of such redemption shall have been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under this Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

All Bonds redeemed pursuant to this Section 2.03 shall be canceled by the Paying Agent, and a certificate of cancellation shall be submitted by the Paying Agent to the City.

**Section 2.04. Form of Bonds.** The Bonds, the form of the Paying Agent's certificate of authentication and registration and the form of assignment to appear thereon shall be substantially in the forms, respectively, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Agreement, as are set forth in Exhibit A attached hereto.

**Section 2.05. Execution of Bonds.** The Bonds shall be executed on behalf of the City by the manual or facsimile signatures of its City Manager, and attested by the manual or facsimile signature of its City Clerk, who are in office on the date of execution of this Agreement or at any time thereafter, and the seal of the City shall be impressed, imprinted or reproduced by facsimile thereon. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bonds to the Purchaser, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the Purchaser. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

Only such Bonds as shall bear thereon a certificate of authentication and registration in the form set forth in Exhibit A attached hereto, executed and dated by the Paying Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Agreement, and such certificate of the Paying Agent shall be conclusive evidence that the Bonds so registered have been duly authenticated, registered and delivered hereunder and are entitled to the benefits of this Agreement.

**Section 2.06. Transfer of Bonds.** Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08 hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds shall be required to be made (a) fifteen days prior to the date established for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).

**Section 2.07. Exchange of Bonds.** Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall 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.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to the date established for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).

**Section 2.08. Bond Register.** The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein before provided.

**Section 2.09. Temporary Bonds.** The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Paying Agent and the Paying Agent shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits pursuant to this Agreement as definitive Bonds executed and delivered hereunder.

**Section 2.10. Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated the City, at the expense of the Owner of said Bond, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Paying Agent shall be canceled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence be satisfactory to the City and indemnity satisfactory to it shall be given, the City, at the expense of the Owner, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen. The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the City and the Paying Agent in the premises. Any Bond issued under the provisions of this Section 2.10 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds issued pursuant to this Agreement.

**Section 2.11. Book-Entry; Limited Obligation of City.** The Bonds may be issued in the form of a separate single fully registered Bond (which may be typewritten) for each maturity.



The ownership of such Bond shall be registered in the registration books kept by the Paying Agent in the name of the Nominee as nominee of the Depository.

With respect to Bonds registered in the registration books kept by the Paying Agent in the name of the Nominee, the City and the Paying Agent shall have no responsibility or obligation to such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the City and the Paying Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other Person, other than as shown in the registration books kept by the Paying Agent, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the Bonds are redeemed in part, or (iv) the payment to any Participant or any other Person, other than a Nominee as shown in the registration books kept by the Paying Agent, of any principal of, premium, if any, or interest on the Bonds. The City and the Paying Agent may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Paying Agent as the owner and absolute Owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of prepayment and other matters with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The Paying Agent shall pay all principal, premium, if any, and interest with respect to the Bonds, only to or upon the order of the respective Owners, as shown in the registration books kept by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Paying Agent, shall receive a Bond evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to this Paying Agent Agreement. Upon delivery by the Depository to the Nominee, the Paying Agent and the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions regarding the payment of the principal of and interest on the Bonds set forth in Section 2.02(e), the word Nominee in this Agreement shall refer to such new nominee of the Depository.

**Section 2.12. Representation Letter.** In order to qualify the Bonds for the Depository's book-entry system, the City shall execute, seal, countersign and deliver to such Depository a letter from the City representing such matters as shall be necessary to so qualify the Bonds (the "**Representation Letter**"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.12 hereof or in any other way impose upon the City or the Paying Agent any obligation whatsoever with respect to Persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Paying Agent. In the written acceptance of the Paying Agent, such Paying Agent shall agree to take all actions necessary for all representations of the City in the Representation Letter with respect to the Paying Agent to at all times be complied with. In addition to the execution and delivery of the

Representation Letter, the City shall take any other actions, not inconsistent with this Agreement, to qualify the Bonds for the Depository's book-entry system.

**Section 2.13. Transfers Outside Book-Entry System.** The City may, by written request, at any time or for any reason, remove the Depository and appoint a successor or successors thereto. In the event (i) the Depository determines not to continue to act as securities depository for any series of Bonds, or (ii) the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry system with the Depository. If the City fails to identify another qualified securities depository to replace the Depository then the Bonds shall no longer be restricted to being registered in the registration books kept by the Paying Agent in the name of the Nominee, but shall be registered in whatever name or names Owners of such Bonds transferring or exchanging such Bonds shall designate, in accordance with the provisions of Section 2.06.

**Section 2.14. Payments and Notices to the Nominee.** Notwithstanding any other provision of this Agreement to the contrary, so long as any Bond is registered in the name of the Nominee, all payments of principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed in writing by the Depository.

**ARTICLE III**  
**ISSUANCE OF BONDS; APPLICATION OF**  
**BOND PROCEEDS; SECURITY FOR THE BONDS**

**Section 3.01. Issuance and Delivery of Bonds.** At any time after the execution of this Agreement the City may issue and deliver Bonds in the aggregate principal amount of \_\_\_\_\_ dollars (\$[Principal Amount]).

The Bonds, substantially in the form attached hereto as Exhibit A, shall be printed, signed and sealed, and delivered to the Purchaser through the Depository on receipt of the purchase price therefor. The appropriate officials of the City are hereby authorized to take any and all action any of them deem reasonable in order to enable the City to execute and deliver the Bonds.

The Paying Agent is hereby authorized to deliver the Bonds to the Purchaser, upon receipt of a Written Request of the City.

**Section 3.02. Application of Proceeds of Sale of Bonds.** Upon the receipt of payment for the Bonds, being \$\_\_\_\_\_, the proceeds thereof shall be paid to the Paying Agent, to be transferred or deposited as follows:

(a) The Paying Agent shall transfer to the City, for deposit in the Debt Service Fund, an amount representing a portion of the premium paid with respect to the Bonds, being \$\_\_\_\_\_; and

(b) The Paying Agent shall deposit \$\_\_\_\_\_ into the Costs of Issuance Account;

(c) The Paying Agent shall transfer to the City, for deposit in the Project Fund, the remainder of the proceeds of the Bonds, being \$\_\_\_\_\_.

**Section 3.03. Validity of Bonds.** The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the Project or upon the performance by any person of his or her obligation with respect to such Project.

**Section 3.04. Security for the Bonds.** The Bonds are general obligations of the City and the City has the power, is obligated and hereby covenants to levy *ad valorem* taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City hereby covenants to direct the Board of Supervisors of Santa Clara County to levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of Debt Service.

## ARTICLE IV FUNDS AND ACCOUNTS

**Section 4.01. Project Fund.** There is hereby established with the City as a separate fund, to be maintained distinct from all other funds of the City, the Series 2010A Project Fund, to the credit of which a deposit shall be made as required by clause (c) of Section 3.02. Money in the Project Fund shall be held by the City and disbursed for the payment of Project Costs. If, upon completion of the Project, amounts remain in the Project Fund, the City shall transfer such amounts to the Debt Service Fund. At such time that no amounts remain on deposit in the Project Fund, the City shall close the Project Fund.

**Section 4.02. Debt Service Fund.** There is hereby established with the City as a separate fund, to be maintained distinct from all other funds of the City, the Series 2010A Debt Service Fund. Upon the receipt thereof, the City shall deposit the proceeds of the *ad valorem* property taxes levied to pay Debt Service in the Debt Service Fund and, if any, other moneys lawfully available to pay debt service on the Bonds as provided in Section 3.04. The City shall also deposit in the Debt Service Fund the amount required by Section 3.02(a) and any other amounts required by Section 3.04 hereof.

The Debt Service Fund shall be administered and disbursements made in the manner and in the order set forth in Section 4.03 hereof.

**Section 4.03. Administration and Disbursements From Debt Service Fund.** All moneys in the Debt Service Fund shall be used and withdrawn by the City solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable. At least five (5) Business Days prior to each Interest Payment Date, commencing January 25, 2011, the City shall transfer to the Paying Agent moneys on deposit in the Debt Service Fund for application by the Paying Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

**Section 4.04. Bond Service Fund.** There is hereby established as a separate fund the Bond Service Fund, to be held by the Paying Agent. All moneys received by the Paying Agent from the City pursuant to Section 4.03 shall be deposited into the Bond Service Fund. The moneys on deposit in the Bond Service Fund shall be used solely to pay principal and interest on the Bonds when due.

**Section 4.05. Costs of Issuance Account.** There is hereby established as a separate account the Costs of Issuance Account, to be held by the Paying Agent. There shall be deposited into the Costs of Issuance Account the amount specified in Section 3.02(b). The moneys in the Cost of Issuance Account shall be used solely for the purpose of the payment of Issuance Expenses upon receipt by the Paying Agent of invoices approved by the City, on or after the Closing Date. Any funds remaining in the Cost of Issuance Account on September 1, 2010, shall be transferred by the Paying Agent to the City, for deposit to the Debt Service Fund.

**Section 4.06. Investment of Moneys.**

(a) Subject to the provisions of Section 5.08 hereof, amounts on deposit in the Project Fund and the Debt Service Fund may be invested by the City in investments selected by the City, which are included as "Investment Instruments" in the City's approved Investment Policy in effect at the time such investment is made, and earnings on such investments shall remain in the respective fund therein. Such investments shall be purchased at their Fair Market Value.

(b) Subject to the provisions of Section 5.08 hereof, amounts on deposit in the Bond Service Fund and Costs of Issuance Account may only be invested by the Paying Agent in a money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, comprised of investments described in Federal Securities or of repurchase agreements comprised of such investments, and having a rating of "AAAm-G" or "AAAm" by S&P or "Aaa" by Moody's, which fund may include a fund for which the Paying Agent, its affiliates or subsidiaries provide investment, advisory or other services, and earnings on such investments shall remain in the Bond Service Fund.

(c) The City acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the City the right to receive brokerage confirmations of security transactions, the City waives receipt of such confirmations. The Paying Agent shall furnish to the City periodic statements of account which shall include detail of all investment transactions made by the Paying Agent.

## ARTICLE V OTHER COVENANTS OF THE CITY

**Section 5.01. Punctual Payment.** The City will punctually pay, or cause to be paid, the principal of and interest on the Bonds, in strict conformity with the terms of the Bonds and of this Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Agreement and of the Bonds. Nothing herein contained shall prevent the City from making advances of its own moneys, howsoever derived, to any of the uses or purposes permitted by law.

**Section 5.02. Extension of Time for Payment.** In order to prevent any accumulation of claims for interest after maturity, the City will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and will not, directly or indirectly, approve any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have so extended or funded.

**Section 5.03. Payment of Claims.** The City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Project financed with the proceeds of the Bonds which might impair the security of the Bonds. Nothing herein contained shall require the City to make any such payment so long as the City in good faith shall contest the validity of said claims.

**Section 5.04. Books and Accounts.** The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the Project financed with proceeds of the Bonds. Such books of record and accounts shall at all times during business hours be subject to inspection by the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

**Section 5.05. Protection of Security and Rights of Bondowners.** The City will preserve and protect the security of the Bonds and the rights of the Bondowners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

**Section 5.06. Continuing Disclosure.** The City hereby covenants and agrees that it will comply with and carry out all of the terms of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be an Event of Default under Section 7.01 hereof; provided, however, any Participating Underwriter, any Owner or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Section 5.06 and the Continuing Disclosure Certificate.

**Section 5.07. Further Assurances.** The City will adopt, 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 Agreement, and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Agreement.

**Section 5.08. No Arbitrage.** The City shall not take, or permit or suffer to be taken by the Paying Agent or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

**Section 5.09. Federal Guarantee Prohibition.** The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

**Section 5.10. Private Activity Bond Limitation.** The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

**Section 5.11. Maintenance of Tax-Exemption.** The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

**Section 5.12. Rebate Requirement.** The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

**Section 5.13. Information Report.** The Director of Administrative Services is hereby directed to assure the filing of an information report for the Bonds in compliance with Section 149(e) of the Code.

## ARTICLE VI THE PAYING AGENT

**Section 6.01. Appointment of Paying Agent.** U.S. Bank National Association, at its Principal Office in St. Paul, Minnesota, or in such other location as approved by the City, is hereby appointed Paying Agent for the Bonds. The Paying Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Agreement, and, even during the continuance of an Event of Default, no implied covenants or obligations shall be read into this Agreement against the Paying Agent. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Agreement by executing and delivering to the City this Agreement.

The City may remove the Paying Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company doing business in the State of California, having (or, if such bank or trust company is a member of a bank holding company, its parent holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 6.01 the combined capital and surplus of such bank 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 Paying Agent may at any time resign by giving written notice to the City and the Bondowners of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Paying Agent by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent shall become effective upon acceptance of appointment by the successor Paying Agent.

**Section 6.02. Paying Agent May Hold Bonds.** The Paying Agent may become the owner of any of the Bonds in its own or any other capacity with the same rights it would have if it were not Paying Agent.

**Section 6.03. Liability of Agents.** The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Paying Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Agreement or of the Bonds, nor shall incur any responsibility in respect thereof, other than as set forth in this Agreement. The Paying Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default.

In the absence of bad faith, the Paying Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Paying Agent and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions by which any provision hereof are specifically required to be furnished to the Paying Agent, the Paying Agent shall be under a duty to



examine the same to determine whether or not they conform to the requirements of this Agreement.

The Paying Agent shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Paying Agent was negligent in ascertaining the pertinent facts.

No provision of this Agreement shall require the Paying Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Paying Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Paying Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

**Section 6.04. Notice to Agents.** The Paying Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Paying Agent may consult with counsel, who may be of 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 it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under this Agreement the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall be full warrant to the Paying Agent for any action taken or suffered under the provisions of this Agreement upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

**Section 6.05. Compensation, Indemnification.** The City shall pay to the Paying Agent from time to time reasonable compensation for all services rendered under this Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Agreement. A City Representative is hereby authorized to execute an agreement or agreements with the Paying Agent in connection with such fees and expenses. The City further agrees to indemnify and save the Paying Agent harmless against any liabilities, costs, claims and expenses of any kind which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or bad faith.

**Section 6.06. Funds and Accounts.** The Paying Agent may establish such funds and accounts as it reasonably deems necessary or appropriate to perform its obligations under this Agreement.

**ARTICLE VII**  
**EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS**

**Section 7.01. Events of Default.** If one or more of the following events ("Events of Default") shall happen, that is to say:

(a) if default shall be made by the City in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by declaration or otherwise;

(b) if default shall be made by the City in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if default shall be made by the City in the observance of any of the covenants, agreements or conditions on its part in this Agreement or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof to the City Representative; or

(d) if the City shall file a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, seeking reorganization of the City under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in each and every event of default and upon written request of the Owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds at the time Outstanding, the principal of all of the Bonds then Outstanding, and the interest accrued thereon, shall be declared to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Agreement or in the Bonds contained to the contrary notwithstanding.

Such declaration may be rescinded by the Owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds at the time Outstanding provided the City cures such default or defaults, including the deposit with the Paying Agent of a sum sufficient to pay all principal on the respective Bonds matured prior to such declaration and all matured installments of interest (if any) on the Bonds, with interest at the rate of twelve percent (12%) per annum on such overdue installments of principal and, to the extent such payment of interest is lawful at that time, on such overdue installments of interest, so that the City is currently in compliance with all payment, deposit and transfer provisions of this Agreement, and a sum sufficient to pay any expenses incurred by the Paying Agent in connection with such default.

**Section 7.02. Application of Funds.** All of the sums in the funds and accounts provided for in Sections 4.02 and 4.03 hereof, upon the date of the Event of Default as provided in Section 7.01 hereof, and all sums thereafter received by the Paying Agent hereunder, shall be applied by the Paying Agent in the following order upon presentation of the Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the costs and expenses of the Paying Agent hereunder and of the costs and expenses of Bondowners in declaring such event of default, including reasonable compensation to her or their agents, attorneys and counsel;

Second, in case the principal of the Bonds shall not have become due and payable, to the payment of the interest in default in the order of the seniority of the installments of such interest, with interest on the overdue installments at the rate of twelve percent (12%) per annum (to the extent that such interest on overdue installments shall have been collected), such payments to be made ratably to the persons entitled thereto without discrimination or preference;

Third, in case the principal of the Bonds shall have become and shall be then due and payable, all such sums shall be applied to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the rate of twelve percent (12%) per annum (to the extent that such interest on overdue installments of interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

**Section 7.03. Other Remedies of Bondowners.** Any Bondowner shall have the right, for the equal benefit and protection of all Bondowners similarly situated:

(a) by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents or employees to perform each and every term, provision and covenant contained in this Agreement and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bondowners' rights; or

(c) upon the happening of any event of default (as defined in Section 7.01 hereon, by suit, action or proceeding in any court of competent jurisdiction, to require the City and its members and employees to account as if it and they were the Paying Agents of an express trust.

**Section 7.04. Non-Waiver.** Nothing in this Article VII or in any other provision of this Agreement, or in the Bonds, shall affect or impair the obligation of the City, which is absolute

and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Bondowner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner of any of the Bonds 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 of any such default or an acquiescence therein, and every power and remedy conferred upon the Bondowners by this Article VI may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners of the Bonds.

If a suit, action or proceeding to enforce any right or exercise any remedy be abandoned or determined adversely to the Bondowners, the City and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

**Section 7.05. Remedies Not Exclusive.** No remedy herein conferred upon the Owners of Bonds shall be exclusive of any other remedy and that each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or thereafter conferred on the Bondowners.

## ARTICLE VIII SUPPLEMENTAL AGREEMENTS

**Section 8.01. Amendments Permitted.** This Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the *ad valorem* taxes of the taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or this Agreement), or reduce the percentage of Bonds required for the amendment hereof. Any such amendment may not modify any of the rights or obligations of the Paying Agent without its written consent.

This Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

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

(b) to make modifications not adversely affecting any outstanding series of Bonds of the City in any material respect;

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Agreement, or in regard to questions arising under this Agreement, as the City and the Paying Agent may deem necessary or desirable and not inconsistent with this Agreement, and which shall not adversely affect the rights of the Owners of the Bonds; and

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of excess investment earnings to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations.

**Section 8.02. Owners' Meetings.** The City may at any time call a meeting of the Owners. In such event the City is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof, and to fix and adopt rules and regulations for the conduct of said meeting.

**Section 8.03. Procedure for Amendment with Written Consent of Owners.** The City and the Paying Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of this Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by Section 8.01, to take effect when and as provided in this Section. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Paying Agent to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request 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 Paying Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04) and a notice 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 Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.04. Any such consent shall be binding upon the Owner of the Bonds 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 Paying Agent prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Paying Agent. A record, consisting of the papers required by this Section 8.03 to be filed with the Paying Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Paying Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the City and the Owners of all Bonds at the expiration of sixty (60) days after such filing, 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 sixty-day period.

**Section 8.04. Disqualified Bonds.** Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in this Article VIII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VIII.

**Section 8.05. Effect of Supplemental Agreement.** From and after the time any Supplemental Agreement becomes effective pursuant to this Article VIII, this Agreement shall be deemed to be modified and amended in accordance therewith, the respective rights, duties

and obligations under this Agreement of the City and all owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

**Section 8.06. Endorsement or Replacement of Bonds Issued After Amendments.** The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VIII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Office of the Paying Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such Owners' action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Paying Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

**Section 8.07. Amendatory Endorsement of Bonds.** The provisions of this Article VIII shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.



## ARTICLE IX MISCELLANEOUS

**Section 9.01. Benefits of Agreement Limited to Parties.** Nothing in this Agreement, expressed or implied, is intended to give to any person other than the City, the Paying Agent and the Owners, any right, remedy, claim under or by reason of this Agreement. Any covenants, stipulations, promises or agreements in this Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Paying Agent.

**Section 9.02. Successor is Deemed Included in All References to Predecessor.** Whenever in this Agreement or any Supplemental Agreement either the City or the Paying Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the City or the Paying Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

**Section 9.03. Discharge of Agreement.** The City shall have the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, and interest and any premium on, such Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in Sections 4.02 and 4.03 is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Paying Agent, in trust, cash and Federal Securities in such amount as the City shall determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in Sections 4.02 and 4.03, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in this Agreement provided or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the funds and moneys provided for in this Agreement and all other obligations of the City under this Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Paying Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered

and paid all sums due thereon and all amounts owing to the Paying Agent pursuant to Section 7.05 shall continue in any event.

Upon compliance by the City with the foregoing with respect to all Bonds Outstanding, any funds held by the Paying Agent after payment of all fees and expenses of the Paying Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City.

**Section 9.04. Execution of Documents and Proof of Ownership by Owners.** Any request, declaration or other instrument which this Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Paying Agent in good faith and in accordance therewith.

**Section 9.05. Waiver of Personal Liability.** No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of, or interest or any premium on, the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

**Section 9.06. Notices to and Demands on City and Paying Agent.** Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the Paying Agent to or on the City may be given or served by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the City with the Paying Agent) to:

The City of Palo Alto  
250 Hamilton Avenue  
Palo Alto, California 94301  
Attn: Director of Administrative Services

Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the City to or on the Paying Agent may be given or served

by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the Paying Agent with the City) to:

U.S. Bank National Association  
One California Street, Suite 100  
San Francisco, CA 94111  
Attn: Corporate Trust Services

**Section 9.07. Partial Invalidity.** If any Section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City hereby declares that it would have adopted this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issue of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid or unenforceable.

**Section 9.08. Unclaimed Moneys.** Anything contained herein to the contrary notwithstanding, any moneys held by the Paying Agent in trust for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payments of such principal, interest and premium have become payable, if such moneys was held by the Paying Agent at such date, shall be repaid by the Paying Agent to the City as its absolute property free from any trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of the principal of, and interest and any premium on, such Bonds.

**Section 9.09. Applicable Law.** This Agreement shall be governed by and enforced in accordance with the laws of the State of California applicable to contracts made and performed in the State of California.

**Section 9.10. Conflict with Act.** In the event of a conflict between any provision of this Agreement with any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of this Agreement.

**Section 9.11. Conclusive Evidence of Regularity.** Bonds issued pursuant to this Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the *ad valorem* taxes securing the payment of the Bonds.

**Section 9.12. Payment on Business Day.** In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds or the date fixed for redemption of any Bonds or the date any action is to be taken pursuant to this Agreement is other than a Business Day, the payment of interest or principal (and premium, if any) or the action need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

**Section 9.13. Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the City has caused this Agreement to be executed in its name and the Paying Agent has caused this Agreement to be executed in its name, all as of the date first written above.

CITY OF PALO ALTO

By: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION,  
as Paying Agent

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

No. \_\_\_\_\_

\$ \_\_\_\_\_

**EXHIBIT A**  
**FORM OF BOND**

**UNITED STATES OF AMERICA**  
**STATE OF CALIFORNIA**  
**COUNTY OF SANTA CLARA**

**CITY OF PALO ALTO**  
**GENERAL OBLIGATION BOND**  
**ELECTION OF 2008, SERIES A**

Interest Rate

Maturity Date  
1, \_\_\_\_\_

Issue Date  
June \_\_, 2010

CUSIP

REGISTERED OWNER: Cede & Co.

PRINCIPAL SUM: \_\_\_\_\_ DOLLARS

The CITY OF PALO ALTO, a charter city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), for value received hereby promises to pay to the Registered Owner stated above, or registered assigns (the "Owner"), on the Maturity Date stated above (subject to any right of prior redemption hereinafter provided for), the Principal Sum stated above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated on an interest payment date, in which event it shall bear interest from such date of authentication, or (ii) this Bond is authenticated prior to an interest payment date and after the close of business on the fifteenth day of the month preceding such interest payment date, in which event it shall bear interest from such interest payment date, or (iii) this Bond is authenticated on or prior to January 15, 2011, in which event it shall bear interest from the Issue Date stated above; provided however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond) until payment of such Principal Sum in full, at the rate per annum stated above, payable on February 1 and August 1 in each year, commencing February 1, 2011, calculated on the basis of 360-day year composed of twelve 30-day months. Principal hereof and premium, if any, upon early redemption hereof are payable at the corporate trust office of U.S. Bank National Association (the "Paying Agent"), in St. Paul, Minnesota, or in such other location as approved by the City. Interest hereon (including the

final interest payment upon maturity or earlier redemption) is payable by check mailed on the applicable Interest Payment Date to the Owner at his or her address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such interest payment date, or at such other address as the Owner may have filed with the Paying Agent for that purpose.

This Bond is one of a duly authorized issue of bonds of the City designated as "City of Palo Alto General Obligation Bonds, Series 2010A" (the "Bonds"), in an aggregate principal amount of \_\_\_\_\_ dollars (\$[Principal Amount]), all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption and other provisions) and all issued pursuant to the provisions of Chapter 4 of Division 4 of Title 4 of the California Government Code (the "Act"), pursuant to a resolution of the City adopted \_\_\_\_\_ 1, 2010 (the "Resolution"), authorizing the issuance of the Bonds and a Paying Agent Agreement dated as of June 1, 2010 (the "Agreement") between the City and the Paying Agent. Reference is hereby made to the Resolution and the Agreement (copies of which are on file at the office of the Paying Agent) and the Act for a description of the terms on which the Bonds are issued and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Paying Agent and the rights and obligations of the City thereunder, to all of the provisions of which Resolution and Agreement the Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued to finance the costs of acquiring and constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems.

This Bond and the interest hereon and on all other Bonds and the interest thereon (to the extent set forth in the Agreement) are general obligations of the City and the City has the power, is obligated and has covenanted to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City has covenanted in the Agreement to direct Santa Clara County to levy and collect such *ad valorem* taxes in such amounts and at such times is necessary to ensure the timely payment of debt service on the Bonds.

Bonds maturing on or before August 1, 20\_\_ are not subject to redemption prior to their respective maturity dates. Bonds maturing on or after August 1, 20\_\_ shall be subject to redemption in whole or in part prior to their respective maturity dates on any date, as designated by the City and, absent any such designation, in pro rata among maturities and by lot within a maturity, from moneys provided at the option of the City, in each case on and after August 1, 20\_\_, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

The Bonds maturing August 1, 20\_\_ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20\_\_,

at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date (August 1)	Amount
--------------------	--------

The Bonds maturing August 1, 20\_\_ are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 20\_\_, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Date (August 1)	Amount
--------------------	--------

As provided in the Agreement, notice of redemption shall be given by mail no less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective registered owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books maintained by the Paying Agent, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption.

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

If an Event of Default, as defined in the Agreement, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Agreement, but such declaration and its consequences may be rescinded and annulled as further provided in the Agreement.

The Bonds are issuable as fully registered Bonds, without coupons, in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Agreement, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations and of the same maturity.

This Bond is transferable by the Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Paying Agent in St. Paul, Minnesota, but only in the manner and subject to the limitations provided in the Agreement, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.



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

The Agreement may be amended without the consent of the Owners of the Bonds to the extent set forth in the Agreement.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Paying Agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time and manner as required by the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Agreement.

This Bond shall not be entitled to any benefit under the Agreement or become valid or obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by the Paying Agent.

IN WITNESS WHEREOF, the City of Palo Alto has caused this Bond to be executed in its name and on its behalf with the facsimile signatures of its City Manager and its City Clerk and its seal to be reproduced hereon, all as of the Issue Date stated above.

CITY OF PALO ALTO

By: \_\_\_\_\_

(S E A L)

ATTEST:

\_\_\_\_\_  
City Clerk

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or Tax Regulations:

TEN COMM--as tenants in common

TEN ENT--as tenants by the entireties

JT TEN--as joint tenants with right of survivorship and not as tenants in common

COMM PROP--as community property

UNIF TRANS MIN ACT \_\_\_\_\_ Custodian \_\_\_\_\_  
(Cust.) (Minor)  
under Uniform Transfers to Minors Act \_\_\_\_\_  
(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED THROUGH NOT IN THE LIST ABOVE

## ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto the within

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the registration books of the Paying Agent, with full power of substitution in the premises.

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

\_\_\_\_\_  
Notice: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

\_\_\_\_\_  
Notice: Signature(s) must be guaranteed by a qualified guarantor institution

## **Exhibit B**

### **OFFICIAL NOTICE OF SALE**

**[\$[Principal Amount]  
CITY OF PALO ALTO  
GENERAL OBLIGATION BONDS,  
ELECTION OF 2008, SERIES 2010A**

NOTICE IS HEREBY GIVEN by the City of Palo Alto (the "City") that electronic bids will be received by the City for the purchase of \$[Principal Amount] City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the "Bonds"). Only electronic bids will be accepted, via PARITY®. No hand delivered or facsimile bids will be accepted. The bids will be received in the manner and up to the time and date specified below:

**DATE AND TIME:** 9:30 A.M. California Time on Wednesday, June 9, 2010, (subject to postponement or cancellation in accordance with this Official Notice of Sale).

**ELECTRONIC BIDS:** Bid proposals may only be submitted electronically, via PARITY®, as provided below.

See "TERMS OF SALE - Warnings Regarding Electronic Bids" herein.

The City reserves the right to postpone or cancel the sale or change the terms thereof prior to the time on June 9, 2010 when bids are to be received. Notice of such postponement, cancellation or revision shall be communicated through PARITY®, as soon as practicable following such postponement, cancellation or revision. See "TERMS OF SALE - Right to Postponement or Cancellation." If the sale is postponed, bids will be received at the place set forth above on any weekday on or before at such time as the City shall determine. Notice of the new date or a new date and time for the receipt of bids, if any, will be given through PARITY® as provided in this Notice of Sale.

The City further reserves the right to modify or amend this Official Notice of Sale in any respect, including, without limitation, the principal amount of the Bonds being offered, upon notice given as described above. As an accommodation to bidders, telephonic, electronic or faxed notice of any postponement of the sale date and of the new sale date and time or any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from the City's Financial Advisor: Stone & Youngberg, LLC, One Ferry Building, Suite 275, San Francisco, California 94111, Attention: Sohail Bengali, email: sbengali@syllc.com, telephone: (415) 445-2327, fax: (415) 445-2395. Failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Notice of any change to the principal payment schedule for the Bonds to be utilized for the bidding process will be given via PARITY® not later than 1:00 p.m. (California time) on the day prior to the date prescribed for the receipt of bids. Potential bidders must obtain any such revised principal payment schedule before bidding on the Bonds. See "TERMS RELATING TO THE BONDS - Principal Payments" and "- Adjustment of Principal Payments" below.

## DESCRIPTION OF THE BONDS

**DATE; FORM; DENOMINATION:** The Bonds will be dated as of the date of their delivery, and will be executed and delivered in non-negotiable, fully registered form, without coupons, in denomination of \$5,000 each or any integral multiple of \$5,000. The Bonds will be delivered in a book-entry only system with no physical distribution of the Bonds to the public. The Depository Trust Company, New York, New York ("DTC") will act as depository for the Bonds. The Bonds will be registered in the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Bonds. The Bonds are being executed and delivered pursuant to a Paying Agent Agreement, dated as of June 1, 2010 (the "Paying Agent Agreement"), by and between the City and U.S. Bank National Association, as Paying Agent (the "Paying Agent"). Reference is made to the Paying Agent Agreement for further details regarding the terms and provisions of the Bonds.

**MATURITIES:** The Bonds will mature, or be subject to mandatory sinking fund redemption, on the maturity dates and in the amounts set forth in the following table. Each bidder is required to specify in its bid whether, for any particular year, the Bonds will mature or, alternatively, be subject to sinking fund redemption in such year. No serial Bonds may mature following the commencement of the first mandatory sinking fund payment. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term bond maturity.

Maturity Date	Principal Amount*	Maturity Date	Principal Amount*
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**INTEREST:** Interest on the Bonds will be payable from their date of delivery at such rate or rates to be fixed upon the sale thereof, payable semiannually on each February 1 and August 1 (each, an "Interest Payment Date"), commencing February 1, 2011.

**PAYMENT:** The Bonds and interest thereon are payable in lawful money of the United States of America, interest being payable by check mailed on each Interest Payment Date to the registered owners thereof at the address shown on the Bond registration books maintained by the Paying Agent on the 15th day of the month preceding an interest payment date. Principal will be payable upon surrender at the principal corporate trust office of the Paying Agent in St. Paul, Minnesota.

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\* Preliminary, subject to change

**OPTIONAL REDEMPTION:** The Bonds are subject to optional redemption prior to maturity, as follows:

Bonds maturing on or before August 1, 20\_\_ are not subject to optional redemption prior to maturity. Bonds maturing on or after August 1, 20\_\_, shall be subject to redemption prior to their respective maturity dates, as designated by the City and, absent any such designation, pro rata among maturities and by lot within a maturity, from moneys provided at the option of the City, in each case, on any date occurring on or after August 1, 20\_\_, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

**MANDATORY REDEMPTION.** Term Bonds, if any, are subject to redemption prior to their respective stated maturity dates, in part, by lot, from mandatory sinking fund payments, on each August 1 designated by the successful bidder as a date upon which a mandatory sinking fund payment is to be made, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. No Term Bonds may be redeemed from mandatory sinking fund payments until all Term Bonds maturing on preceding term maturity dates, if any, have been retired.

**PURPOSE:** The proceeds of the Bonds will be used to finance the costs of acquiring and constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems.

**SECURITY:** The Bonds are general obligations of the City payable from *ad valorem* taxes levied by the City and collected by Santa Clara County (the "County"). The City has the power and is obligated to cause the Board of Supervisors of the County to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates) for the payment of the Bonds and the interest thereon, in accordance with all relevant provisions of law. The City has covenanted in the Paying Agent Agreement to direct the Board of Supervisors of the County to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the Bonds.

**TAX-EXEMPT STATUS:** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes.

In the event that, prior to the delivery of the Bonds (a) the interest on other obligations of the same type and character shall be declared to be subject to taxation (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law

is enacted which will have a substantial adverse effect upon the owners of the Bonds as such, the successful bidder may, at its option, prior to the tender of the Bonds, be relieved of its obligation to purchase the Bonds, and in such case the deposit accompanying its bid will be returned.

**LEGAL OPINION:** The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, approving the validity of the Paying Agent Agreement and the Bonds will be furnished to the successful bidder without cost. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond without charge to the successful bidder.

**FURTHER INFORMATION:** A copy of the preliminary Official Statement describing the Bonds, and any other information concerning the proposed financing, will be furnished upon request to the City's Financial Advisor, Stone & Youngberg LLC, One Ferry Building, Suite 275, San Francisco, California 94111.

### **TERMS OF SALE**

**FORM OF BID:** All bids must be for not less than all of the Bonds hereby offered for sale, and for not less than the aggregate par value thereof, plus a net premium of at least \$220,000, for a total minimum bid of at least \$\_\_\_\_\_. The City intends to apply up to \$220,000 of such premium to pay costs of issuance incurred in connection with the issuance of the Bonds (see "Payment of Costs of Issuance" herein).

Bidders may submit only one bid, electronically through PARITY®.

**ELECTRONIC BIDS.** Electronic bids must conform with the procedures established by PARITY®. Electronic bids will be received exclusively through PARITY® in accordance with this Official Notice of Sale until 9:30 a.m. California time on the sale date, but no bid will be received after the time specified for receiving bids. To the extent any instructions or directions set forth in PARITY® conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about PARITY®, including any fees charged by PARITY®, potential bidders may contact PARITY®, 40 W. 23<sup>rd</sup> Street, 5<sup>th</sup> Floor, New York, NY 10010 (Eric Washington), telephone (212) 812-0971.

THE CITY RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE AND COMPLETE. THE CITY TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ITS BID IS INCOMPLETE, ILLEGIBLE OR NOT RECEIVED.

**WARNING REGARDING ELECTRONIC BIDS:** THE CITY WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY®. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY®, AND THAT PARITY® IS NOT ACTING AS AN AGENT OF THE CITY. INSTRUCTIONS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY®, AND THE CITY ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY®. THE CITY SHALL ASSUME THAT ANY BID RECEIVED



THROUGH PARITY® HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE CITY, THE FINANCIAL ADVISOR, BOND COUNSEL AND DISCLOSURE COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE CITY AT THE PLACE OF BID OPENING, AND THE CITY SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY® AS THE OFFICIAL TIME.

**INTEREST RATE:** Bidders must specify the rate or rates of interest which shall be payable on the Bonds. The maximum rate bid may not exceed \_\_\_\_\_ percent (\_\_\_%) per annum. Interest on the Bonds is payable semiannually on each Interest Payment Date. Bidders will be permitted to bid different rates of interest but (a) each interest rate specified in any bid must be in a multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent; (b) interest on each Bond shall be computed from the closing date (expected to be June \_\_, 2010), to its stated maturity date, at the interest rate specified in the bid, payable semiannually as set forth above; (c) interest on all Bonds maturing at any one time shall be payable at the same rate of interest; and no bid will be accepted which contemplates the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price.

**BEST BID:** The Bonds will be awarded to the best responsible bidder therefor, considering the interest rate or rates specified and the premium offered, if any, or discount taken, if any, and the best bid will be determined on the basis of the lowest true interest cost. The true interest cost will be that nominal annual discount rate which, when discounted semiannually and when used to discount all payments of principal and interest on the Bonds at the rate or rates specified in the bid to the date of the Bonds results in the amount equal to the purchase price, which is the principal amount of the Bonds plus the amount of any premium, less the amount of any discount. In the event two or more bids setting forth identical interest rates are received, the City reserves the right to allow its authorized representative to exercise his or her own discretion and judgment in making the award and may award the Bonds on a pro rata basis in such denominations as he or she shall determine.

**PAYMENT OF COSTS OF ISSUANCE:** The successful bidder will be required to pay costs of issuance of the Bonds in the amount of \$220,000 from the premium described above in "Form of Bid" at the time of delivery of the Bonds.

Such costs will be paid at closing pursuant to a written order of the City, accompanied by approved invoices.

**ADJUSTMENT OF PRINCIPAL AMOUNTS:** Following the receipt of bids, the City reserves the right to increase or to decrease the principal amount of any maturity of the Bonds as the City deems advisable, based on the actual rates of interest to be borne by the Bonds. Any such increase or decrease shall be allocated among the various maturities of the Bonds on such basis as the City deems advisable, and shall result in a proportionate increase or decrease (as the case may be) in the amount of any premium or discount bid. Notice of such increase or decrease shall be given to the successful bidder as soon as practicable following the notification of award, as described below. No such adjustment will have the effect of altering the basis upon which the best bid is determined.

**RIGHT TO MODIFY OR AMEND:** The City reserves the right, in *its sole discretion*, to modify or amend this Official Notice of Sale including, but not limited to, the right to adjust and change the principal amount and principal amortization schedule of the Bonds being offered, however, such modifications or amendments shall be made not later than 1:00 P.M., California time, on the business day prior to the bid opening and communicated through PARITY®.

**RIGHT TO POSTPONEMENT OR CANCELLATION:** The City may postpone or cancel the sale prior to the time bids are to be received as provided on page one hereof, provided that notice is communicated to prospective bidders through PARITY® prior to the time then scheduled for the receipt of such bids. Notice of a new time, or of a new date and time, if any, will be given through PARITY®, telephone or facsimile as soon as practicable following a postponement. In the event of a postponement of the sale only, any subsequent bid submitted by the bidder will supersede any prior bid made. Failure of any bidder to receive notice of any postponement or cancellation shall not invalidate the sufficiency of any such notice.

**RIGHT OF REJECTION:** The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid except that no bids will be accepted later than 10:00 A.M. on the date set for receipt of bids.

**PROMPT AWARD:** An authorized representative of the City will take action awarding the sale of the Bonds or reject all bids not later than twenty-six (26) hours after the expiration of time herein prescribed for the receipt of bids and until such expiration of time all bids received shall be irrevocable. Unless such time of award is waived by the successful bidder, the award may be made after the expiration of the specified time if the bidder shall not have given to the City notice in writing of the withdrawal of such proposal. Notice of the award will be given promptly to the successful bidder.

**DELIVERY AND PAYMENT:** Delivery of the Bonds will be made to the successful bidder in New York, New York, as soon as the Bonds can be prepared, which is estimated to be June \_\_, 2010 (the "Closing Date"). The Bonds will be delivered in full book-entry form through the facilities of DTC. Payment for the Bonds must be made in immediately available funds to the Paying Agent. Any expense in providing immediately available funds shall be borne by the purchaser.

**RIGHT OF CANCELLATION:** The successful bidder shall have the right, at its option, to cancel its purchase of the Bonds if the City shall fail to cause the execution and delivery of the Bonds and tender the same for delivery within 30 days from the date of sale thereof and in such event the successful bidder shall be entitled to the return of the deposit accompanying its bid.

**NO GOOD FAITH DEPOSIT.** A good faith deposit is not required to accompany a bid to purchase the Bonds.

**ESTIMATE OF TRUE INTEREST COST:** Each bidder is requested, but not required, to state in its bid the true interest cost, as described under the caption "BEST BID" herein, which shall be considered as informative only and not binding on either the bidder or the City.

**CERTIFICATION OF REOFFERING PRICE.** The successful bidder will, as of the date the Bonds are sold pursuant to this Notice of Sale, certify to the City the prices at which it reasonably expects to initially offer each maturity of the Bonds to the general public (the "Initial Offering Prices"). For this purpose, the general public does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers.

The successful bidder agrees that, on or prior to the Closing Date, it will actually offer 100% of each maturity of the Bonds to the general public in a bona fide public offering for prices equal to or less than the Initial Offering Prices.

The successful bidder agrees that, prior to the Closing Date, it will deliver a certificate dated as of the Closing Date in form and substance attached as Exhibit A and satisfactory to Bond Counsel.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION:** The City has duly notified the California Debt and Investment Advisory Commission of the proposed sale of the Bonds. Payment of all fees, to the California Debt and Investment Advisory Commission in connection with the execution, sale and delivery of the Bonds shall be the responsibility of the successful bidder, and not of the City.

**NO LITIGATION:** There is no litigation pending concerning the validity of the Bonds, the existence of the City or the entitlement of the officers thereof to their respective offices, and the successful bidder will be furnished a no-litigation certificate certifying to the foregoing as of and at the time of delivery of the Bonds.

**CUSIP NUMBERS:** It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms hereof. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the purchaser.

**OFFICIAL STATEMENT:** The City will approve an Official Statement relating to the Bonds. Copies of a preliminary Official Statement will be distributed prior to the sale in a form "deemed final" by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") and approved for distribution by resolution of the City. Within seven business days from the sale date, the City will deliver to the purchaser up to 100 copies of the final Official Statement, executed by an authorized representative of the City and dated the date of delivery thereof to the purchaser, to allow the purchaser to comply with paragraph (b)(4) of the Rule and to satisfy the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32 or any other rules adopted by the MSRB, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and such other amendments or supplements as shall have been approved by the City (the "Final Official Statement"). The successful bidder agrees to supply the City all pricing information necessary to complete the Final Official Statement within 24 hours after the award of the Bonds. The purchaser agrees that it will not confirm the sale of any Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Final Official Statement.

**EXHIBIT A**  
**Reoffering Price Certificate**

[\$[Principal Amount]]  
**CITY OF PALO ALTO**  
**GENERAL OBLIGATION BONDS, ELECTION OF 2008, SERIES 2010A**

**CERTIFICATE OF PURCHASER**

The undersigned, on behalf of \_\_\_\_\_, as underwriter (the "Underwriter") of the above-captioned bonds (the "Bonds"), hereby confirms our advice that:

- (i) Based upon reasonable expectations and actual facts which existed on May \_\_, 2010, being the date upon which the City of Palo Alto (the "Issuer") sold the Bonds to the Underwriter (the "Sale Date"), the Underwriter reasonably expected to sell a substantial amount of each maturity of the Bonds (being at least 10% of each maturity) to the general public (for purposes of this Certificate, "general public" excludes bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices, or in the case of obligations sold on a yield basis, at the respective yields (together the "Initial Offering Prices") set forth in Exhibit A attached hereto and by this reference incorporated herein (these prices are also shown on the cover of the Official Statement).
- (ii) The aggregate of the Initial Offering Prices is \$\_\_\_\_\_.
- (iii) As of the date hereof, 100% of the Bonds of each maturity were actually offered to the general public in a bona fide public offering for the Initial Offering Prices.
- (iv) As of the Sale Date, the Underwriter, taking into account market conditions, had no reason to believe any of the Bonds would be initially sold to the general public at prices greater than the Initial Offering Prices.
- (v) As of the Sale Date, other than the \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ maturities of the Bonds, at least 10% of each maturity of the Bonds was initially sold to the general public for the respective Initial Offering Prices.
- (vi) In our opinion, the Initial Offering Prices do not exceed the fair market value of said maturities of the Bonds to the general public as of the Sale Date.

Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in that certain Paying Agent Agreement, dated as of June 1, 2010, by and between the Issuer and U.S. Bank National Association, as paying agent, authorizing the issuance of the Bonds.

Dated: \_\_\_\_\_, 2010

\_\_\_\_\_  
*as Underwriter*

By \_\_\_\_\_  
Name,  
Title

# Exhibit C

## PRELIMINARY OFFICIAL STATEMENT DATED MAY 27, 2010

### NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:  
Moody's: "\_\_\_\_"  
S&P: "\_\_\_\_"  
(See "RATINGS" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS—Tax Matters" herein.



\$ \_\_\_\_\_ \*

### City of Palo Alto (Santa Clara County, California) General Obligation Bonds, Election of 2008, Series 2010A

Dated: Date of Delivery

Due: August 1 as shown on the inside cover

The general obligation bonds captioned above (the "Bonds") are being issued by the City of Palo Alto (the "City") under the provisions of Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code, a Resolution adopted by the City Council of the City on May 10, 2010, and a Paying Agent Agreement, dated as of June 1, 2010, by and between the City and U.S. Bank National Association, as paying agent (the "Paying Agent").

The Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$76,000,000 principal amount of general obligation bonds to finance the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding Main Library, and renovating and the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems (the "Project"). See "PLAN OF FINANCE—Purpose of Issue" herein. The Bonds are the first of two series of bonds to be sold and issued under this authorization. See "THE BONDS—Authority for Issuance" herein.

The Bonds are general obligations of the City, payable solely from *ad valorem* property taxes levied by the City and collected by Santa Clara County (the "County"). The City Council is empowered and is obligated to levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS" herein.

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" herein and "APPENDIX F—DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2011. Payments of principal of and interest on the Bonds will be paid by the Paying Agent, to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS—Description of the Bonds" herein.

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

### MATURITY SCHEDULE

SEE INSIDE COVER

Bids for the purchase of the Bonds will be received by the City on Wednesday, June 9, 2010, until 10:00 A.M., Pacific time, as provided in the Official Notice of Sale. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated May 27, 2010.

This cover page contains information for general reference only. It is not a summary of this issue. Potential purchasers of the Bonds are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain disclosure matters will be passed upon for the City by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel. Certain matters will be passed upon for the City by Gary M. Baum, Esq., the City Attorney. It is expected that the Bonds, in book-entry form, will be available for delivery on or about June 30, 2010.

Dated: June \_\_, 2010

\*Preliminary, subject to change.

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 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 a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.



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**City of Palo Alto**  
(Santa Clara County, California)  
**General Obligation Bonds,**  
**Election of 2008, Series 2010A**

**MATURITY SCHEDULE\***

CUSIP Prefix \_\_\_\_\_ †

<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Suffix</b>	<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Suffix</b>
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\*Preliminary, subject to change.

† Copyright 2010, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. 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 holders of the Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the Underwriter. This Official Statement and the information contained herein are subject to completion or amendment without notice.

**No Offering Except by This Official Statement.** No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

**No Unlawful Offers or Solicitations.** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Estimates and Projections.** When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

**Information in Official Statement.** The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by the City.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

**Document Summaries.** All summaries of the Paying Agent Agreement or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

**No Securities Laws Registration.** The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

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



## **CITY OF PALO ALTO**

250 Hamilton Avenue, 7th Floor  
Palo Alto, CA 94301  
<http://www.cityofpaloalto.org/>

### **CITY COUNCIL MEMBERS**

Patrick Burt, *Mayor*  
Sid Espinosa, *Vice Mayor*  
Karen Holman, *Council Member*  
Larry Klein, *Council Member*  
Gail A. Price, *Council Member*  
Gregory Scharff, *Council Member*  
Greg Schmid, *Council Member*  
Nancy Shepherd, *Council Member*  
Yiaway Yeh, *Council Member*

### **CITY STAFF**

James Keene, *City Manager*  
Pamela Antil, *Assistant City Manager*  
Lalo Perez, *Director of Administrative Services*  
Joe Saccio, *Deputy Director of Administrative Services*  
Tarun Narayan, *Senior Financial Analyst, Administrative Services*  
Gary M. Baum, *City Attorney*  
Donna G. Rogers, *City Clerk*

### **SPECIAL SERVICES**

#### **Bond Counsel**

Jones Hall  
A Professional Law Corporation  
*San Francisco, California*

#### **Disclosure Counsel**

Quint & Thimmig LLP  
*San Francisco, California*

#### **Financial Advisor**

Stone & Youngberg LLC  
*San Francisco, California*

#### **Paying Agent**

U.S. Bank National Association  
*San Francisco, California*

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## OFFICIAL STATEMENT

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**CITY OF PALO ALTO**  
**General Obligation Bonds**  
**Election of 2008, Series 2010A**

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the "Bonds") by the City of Palo Alto (the "City"). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Paying Agent Agreement (as defined below).

### 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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

*The City.* The City is located in northern Santa Clara County (the "County"), approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The City has a current population of approximately 64,500.

See APPENDIX A—"GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY OF PALO ALTO AND SANTA CLARA COUNTY" and APPENDIX B—"CITY OF PALO ALTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2009," for certain demographic, statistical and financial information regarding the City.

*Authority for Issuance.* The Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$76,000,000 principal amount of general obligation bonds (the "Authorization").

The Bonds are being issued under the provisions of Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code, a Resolution adopted by the City Council of the City (the "City Council") on May 10, 2010 (the "Bond Resolution"); and a

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\* Preliminary, subject to change.

Paying Agent Agreement (the "Paying Agent Agreement"), dated as of June 1, 2010, by and between the City and U.S. Bank National Association, as paying agent (the "Paying Agent"). The Bonds are the first series of bonds to be sold and issued under this authorization. See "THE BONDS—Authority for Issuance."

*Purpose for Issuance.* Pursuant to the Authorization, bonds were approved to finance the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems (the "Project"). The Bonds are the first of two series of bonds to be sold and issued under the Authorization to finance a portion of the Project. See "PLAN OF FINANCE—Purpose of Issue."

*Security and Sources of Payment for the Bonds.* The Bonds are general obligations of the City payable solely from *ad valorem* property taxes levied by the City and collected by the County. The City Council is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS."

*Payment and Registration of the Bonds.* The Bonds will be dated their date of original issuance and delivery (the "Dated Date") and will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple of \$5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS" and APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Interest on the Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2011. See "THE BONDS—Description of the Bonds."

*Early Redemption.* The Bonds are subject to optional and mandatory sinking fund redemption prior to their maturity as described in "THE BONDS—Redemption."

*Other Information.* This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the City of Palo Alto City Clerk, 250 Hamilton Avenue, , Palo Alto, California 94301, (650) 329-2571. The City may impose a charge for copying, mailing and handling.

## PLAN OF FINANCE

### Purpose of Issue

The Project consists of the following components:

- *Mitchell Park Library and Community Center.* The existing Mitchell Park Library is about 10,000 square feet and will be replaced with a new facility of approximately 36,000 square feet. The new library will be two stories to accommodate an enlarged collection, a children's area, an acoustically separated teen area, group study rooms, staff areas and

a program room. Increases in collection, seating, computers, children's area and programming space are planned to serve the needs of the projected population. Technical Services staff, currently located at the Downtown Library, would be relocated to the Mitchell Park Library in order to facilitate the increased intake of new materials for the entire library system.

The existing Community Center is approximately 10,000 square feet and will be replaced with a new facility of approximately 15,000 square feet. Similar to the existing community center, the new building will be a one-story building attached to the new library. By sharing activity space, the joint facility will be smaller in size than two independent buildings and will create a more efficient use of the library/community center site.

- *Main Library.* The Main Library improvements include small group study rooms that are acoustically separated from the rest of the existing building and a new program space that seats 100 people. To accommodate the new program space, the Main Library will expand by approximately 4,000 square feet from the current 21,000 square feet on the ground floor of the building. The interior of the existing library will also be reconfigured. Lighting and other building systems will also be upgraded. All of the improvements will be made with consideration for the historic nature of the existing building.
- *Downtown Library.* The interior space will be reconfigured and the technical staff relocated to provide larger public and program areas. A small program room is planned. Systems upgrades, such as improved lighting and mechanical systems will also be provided.

The proceeds of the Bonds, being the first series of bonds under the Authorization, will be used to finance the design and construction of the Mitchell Park Library and Community Center improvements and to finance the design costs of the Main Library and Downtown Library improvements.

#### **Sources and Uses of Funds**

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

**Sources of Funds**  
Principal Amount of Bonds  
Plus: Net Original Issue Premium  
Total Sources

**Uses of Funds**  
Deposit to Debt Service Fund  
Deposit to Project Fund  
Costs of Issuance Account (1)  
Underwriter's Discount  
Total Uses

(1) Includes Bond Counsel and Disclosure Counsel fees, financial advisor fees, rating fees, printing expenses, Underwriter's discount, and other costs of issuance with respect to the Bonds.

### **THE BONDS**

#### **Authority for Issuance**

The Bonds are issued under the provisions of Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code, the Bond Resolution and the Paying Agent Agreement..

### **Description of the Bonds**

*Book-Entry Form.* The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

See APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

*Interest.* Interest with respect to the Bonds is payable semiannually on February 1 and August 1 of each year (the "Interest Payment Dates"), commencing February 1, 2011.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated prior to an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is registered and authenticated prior to a Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to January 15, 2011, in which event it will bear interest from the date of original issuance and authentication of the Bonds; *provided*, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

*Denominations and Maturity.* The Bonds will be issued in the denomination of \$5,000 each or any integral multiple of \$5,000. The Bonds mature August 1 in the years \_\_\_\_ through \_\_\_\_, in the amounts set forth on the inside cover page of this Official Statement. See the maturity schedule on the inside cover page hereof and "DEBT SERVICE SCHEDULE" below.

## Payment

Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Paying Agent mailed on the Interest Payment Date to the owner thereof at such owner's address as it appears on the Bond Register maintained by the Paying Agent at the close of business on the 15th day of the month preceding the Interest Payment Date, or at such other address as the owner may have filed with the Paying Agent for that purpose; *provided* that an owner of \$1,000,000 or more aggregate principal amount of Bonds, or the owner of all of the Bonds at the time outstanding, will, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such owner to the Paying Agent no later than the 15th day of the month immediately preceding the applicable Interest Payment Date.

Principal of the Bonds is payable in lawful money of the United States of America at the principal office of the Paying Agent.

## Redemption

*Optional Redemption.* The Bonds maturing on or before August 1, \_\_\_\_ are not subject to redemption prior to their fixed maturity dates. The Bonds maturing on or after August 1, \_\_\_\_ are subject to redemption prior to their respective maturity dates as a whole on any date, as designated by the City and, absent any such designation, pro rata among maturities and by lot within a maturity, from money provided at the option of the City, in each case on and after August 1, \_\_\_\_, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

*Redemption Procedure.* The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the bond registration books maintained by the Paying Agent and to the Securities Depositories (as such term is defined in the Paying Agent Agreement); but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Bonds.

The Paying Agent will not mail any notice of redemption until it has sufficient moneys on deposit to pay the redemption price of all Bonds to be redeemed; *provided*, however, that such restriction will not apply when the Bonds are redeemed with the proceeds of another obligation of the City; and provided further that in the event the Bonds are being redeemed with such proceeds, the City will have the right to cancel the notice of redemption by providing written notice of such cancellation to the Paying Agent at least seven business days prior to the date set for redemption.

Such notice will state the redemption date and the redemption price and, if less than all of the then outstanding Bonds are to be called for redemption, will designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and will require that such Bonds be then surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

*Partial Redemption.* Upon surrender of Bonds redeemed in part only, the City will execute and the Paying Agent will authenticate and deliver to the owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

*Effect of Redemption.* From and after the date fixed for redemption, if notice of such redemption has been duly given as provided in the Paying Agent Agreement and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Paying Agent Agreement other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

### **Registration, Transfer and Exchange of Bonds**

If the book-entry system as described above and in Appendix E is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

*Bond Register.* The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "Bond Register"), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

*Transfer.* Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent will require the payment by the owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds will be required to be made (a) 15 days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).

*Exchange.* Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent will 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.

No exchanges of Bonds will be required to be made (a) 15 days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).



## Defeasance

The City has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, and interest and any premium on, such outstanding Bonds, as and when they become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in the Paying Agent Agreement is fully sufficient to pay such outstanding Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Paying Agent or other agent designated by the City, in trust, cash and Federal Securities (as defined below) in such amount as the City will determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in the Paying Agent Agreement, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City has taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption will have been given as in the Paying Agent Agreement provided or provision satisfactory to the Paying Agent will have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds will not have been surrendered for payment, the pledge of the funds and moneys provided for in the Paying Agent Agreement and all other obligations of the City under the Paying Agent Agreement with respect to such outstanding Bonds will cease and terminate. Notice of such election will be filed with the Paying Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Paying Agent pursuant to the Paying Agent Agreement will continue in any event.

Upon compliance by the City with the foregoing with respect to all bonds outstanding, any funds held by the Paying Agent after payment of all fees and expenses of the Paying Agent, which are not required for the purposes of the preceding paragraph, will be paid over to the City.

"Federal Securities" means Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

### DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

<u>Year Ending August 1</u>	<u>Bonds Principal Payment</u>	<u>Bonds Interest Payment</u>	<u>Total Bonds Debt Service</u>
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## SECURITY FOR THE BONDS

### Ad Valorem Taxes

*Bonds Payable from Ad Valorem Property Taxes.* The Bonds are general obligations of the City, payable solely from *ad valorem* property taxes levied by the City and collected by the County. The City is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

*Levy and Collection.* The City will levy and the County will collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Bonds, which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due. If and to the extent the amount of such *ad valorem* taxes collected is insufficient to pay debt service on the Bonds, the City is obligated under the Paying Agent Agreement to use any other moneys lawfully available therefore to pay debt service on the Bonds.

City property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

*Annual Tax Rates.* The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate.

Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

### Debt Service Fund

The City will establish the Debt Service Fund (the "**Debt Service Fund**"), which will be established as a separate fund to be maintained distinct from all other funds of the City. Into the Debt Service Fund will be deposited: (1) the proceeds of *ad valorem* taxes levied to pay debt service on the Bonds; and (2) if any, other moneys lawfully available to pay debt service on the Bonds as provided in the Paying Agent Agreement.

All moneys in the Debt Service Fund will be used and withdrawn by the City solely for the purpose of paying the principal of and interest on the Bonds as they become due and payable. At least five Business Days prior to each Interest Payment Date, commencing in January 1 the City will transfer to the Paying Agent moneys on deposit in the Debt Service Fund for application by the Paying Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

## **Bond Service Fund**

The Paying Agent Agreement establishes, as a separate fund, the Bond Service Fund, to be held by the Paying Agent. All moneys received by the Paying Agent from the City from the Debt Service Fund will be deposited into the Bond Service Fund. The moneys on deposit in the Bond Service Fund will be used solely to pay principal and interest on the Bonds when due.

## **Limited Obligation**

The Bonds are payable solely from the proceeds of an *ad valorem* tax levied by the City, and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to levy and collect the *ad valorem* tax for the payment of the Bonds, the Bonds are not a debt of the County.

## **PROPERTY TAXATION**

### **Property Tax Collection Procedures**

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a 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 property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office

of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

### **Taxation of State-Assessed Utility Property**

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("SBE") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

### **Alternative Method of Tax Apportionment - Teeter Plan**

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

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

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

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

## Assessed Valuation

*Assessed Valuation History.* The table below shows a six-year history of the City's assessed valuation. Over the last five years, the City's assessed valuation has increased by 34.65%, representing an average annual compound growth rate of approximately 6.13%.

### CITY OF PALO ALTO Assessed Valuations of Taxable Property Fiscal Years 2005-06 to 2009-10

Fiscal Year	Local Secured	Utility	Unsecured	Total Before Redevelopment Increment
2005-06	\$14,884,943,729	\$4,084,441	\$1,361,116,631	\$16,250,144,801
2006-07	16,214,406,874	3,922,614	1,391,283,851	17,609,613,339
2007-08	17,382,729,942	3,174,384	1,536,583,502	18,922,487,828
2008-09	19,380,152,340	2,572,716	1,702,884,064	21,085,609,120
2009-10	20,239,349,432	2,572,716	1,638,435,945	21,880,358,093

Source: California Municipal Statistics, Inc..

*Assessed Valuation by Land Use.* The following table shows the land use of parcels in the City, according to assessed valuation. As shown, the majority of land in the City is used for residential purposes.

### CITY OF PALO ALTO Assessed Valuation and Parcels by Land Use Fiscal Year 2009-10

	2009-10 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
<b>Non-Residential:</b>						
Agricultural/Forest	\$25,840,436	0.13%	51	0.25%	33	0.17%
Commercial	1,110,017,755	5.48	461	2.26	455	2.28
Professional/Office	2,400,760,506	11.86	479	2.34	459	2.30
Industrial/Research & Development	2,014,916,558	9.96	189	0.92	184	0.92
Recreational	21,740,043	0.11	14	0.07	11	0.06
Government/Social/Institutional	420,964,393	2.08	106	0.52	39	0.20
Miscellaneous	10,874,738	0.05	25	0.12	23	0.12
Subtotal Non-Residential	\$6,005,114,429	29.67%	1,325	6.48%	1,204	6.03%
<b>Residential:</b>						
Single Family Residence	\$11,513,811,943	56.89%	14,879	72.82%	14,834	74.31%
Condominium/Townhouse	1,386,493,446	6.85	2,630	12.87	2,627	13.16
2-4 Residential Units	344,216,870	1.70	535	2.62	535	2.68
5+ Residential Units/Apartments	697,779,476	3.45	330	1.62	305	1.53
Mobile Home	77,840	0.00	7	0.03	7	0.04
Subtotal Residential	\$13,942,379,575	68.89%	18,381	89.96%	18,308	91.71%
Vacant Parcels	\$288,017,714	1.42%	468	2.29%	441	2.21%
Unknown	\$3,837,714	0.02%	259	1.27%	10	0.05%
<b>Total</b>	<b>\$20,239,349,432</b>	<b>100.00%</b>	<b>20,433</b>	<b>100.00%</b>	<b>19,963</b>	<b>100.00%</b>

Source: California Municipal Statistics, Inc.

(1) Local Secured Assessed Valuation; excluding tax-exempt property.

*Assessed Valuation of Single Family Residential Parcels.* The following table shows a break down of the assessed valuations of Single Family Residential parcels in the City, according to assessed valuation

**CITY OF PALO ALTO**  
**Per Parcel 2009-10 Assessed Valuation**  
**of Single Family Homes**

Single Family Residential	No. of Parcels	2009-10 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
	14,879	\$11,513,811,943	\$773,830	\$546,815

2009-10 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	2,156	14.490%	14.490%	\$ 161,737,351	1.405%	1.405%
\$100,000 - \$199,999	2,057	13.825	28.315	283,300,864	2.461	3.865
\$200,000 - \$299,999	1,046	7.030	35.345	261,725,467	2.273	6.138
\$300,000 - \$399,999	869	5.840	41.186	304,494,839	2.645	8.783
\$400,000 - \$499,999	886	5.955	47.140	400,511,772	3.479	12.262
\$500,000 - \$599,999	897	6.029	53.169	493,169,146	4.283	16.545
\$600,000 - \$699,999	777	5.222	58.391	506,134,743	4.396	20.941
\$700,000 - \$799,999	680	4.570	62.961	510,717,462	4.436	25.376
\$800,000 - \$899,999	769	5.168	68.130	653,757,883	5.678	31.054
\$900,000 - \$999,999	687	4.617	72.747	652,899,151	5.671	36.725
\$1,000,000 - \$1,099,999	554	3.723	76.470	580,118,272	5.038	41.763
\$1,100,000 - \$1,199,999	465	3.125	79.595	535,661,205	4.652	46.416
\$1,200,000 - \$1,299,999	375	2.520	82.116	468,884,496	4.072	50.488
\$1,300,000 - \$1,399,999	351	2.359	84.475	473,151,558	4.109	54.598
\$1,400,000 - \$1,499,999	330	2.218	86.693	477,882,824	4.151	58.748
\$1,500,000 - \$1,599,999	269	1.808	88.501	416,158,588	3.614	62.363
\$1,600,000 - \$1,699,999	234	1.573	90.073	386,650,544	3.358	65.721
\$1,700,000 - \$1,799,999	191	1.284	91.357	334,053,898	2.901	68.622
\$1,800,000 - \$1,899,999	167	1.122	92.479	308,308,875	2.678	71.300
\$1,900,000 - \$1,999,999	128	0.860	93.340	249,337,765	2.166	73.465
\$2,000,000 and greater	991	6.660	100.00%	305,515,240	26.535	100.00%
<b>Total</b>	<b>14,879</b>	<b>100.000%</b>		<b>\$11,513,811,943</b>	<b>100.000%</b>	

Source: California Municipal Statistics, Inc.

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

## Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 6-001 for each \$100 of assessed valuation during the fiscal years 2005-06 through 2009-10.

**CITY OF PALO ALTO**  
**Summary of Ad Valorem Tax Rates**  
**\$1 per \$100 of Assessed Valuation**  
**Fiscal Years 2004-05 to 2008-09**  
**(Tax Rate Area 6-001)**

Ad Valorem Tax	2005-06	2006-07	2007-08	2008-09	2009-10
General	1.0000	1.0000	1.0000	1.0000	1.0000
County Retirement Levy	.0388	.0388	.0388	.0388	.0388
County Hospital Bond	-	-	-	-	.0122
Palo Alto Unified School District	.0526	.0440	.0445	.0404	.0445
Foothill-De Anza Community College District	.0119	.0346	.0113	.0123	.0322
Total All Property	1.1033	1.1174	1.0946	1.0915	1.1277
Santa Clara Valley Water District - State Water Project	.0069	.0070	.0067	.0059	.0071
Total Land and Improvement	.0069	.0070	.0067	.0059	.0071

(1) 2009-10 assessed valuation of TRA 6-001 is \$17,677,736,905 which is 80.79% of the city's total assessed valuation.  
Source: California Municipal Statistics, Inc.

## Tax Levies and Delinquencies

The following table is a five year summary of *ad valorem* property tax levies, dollars delinquent and delinquency rates on property within the City. Because the City currently participates in the Teeter Plan, the amount of *ad valorem* property taxes received by the City is equal to the amount levied rather than the amount collected by the County. See "Alternative Method of Apportionment—Teeter Plan," above.

**CITY OF PALO ALTO**  
**Total Tax Levies and Collections**  
**(As of June 30)**  
**2002-03 through 2008-09**  
**(In Thousands)**

Fiscal Year	Gross Tax Levy	Current Tax Collections	Percentage of Current Levy Collected	Delinquent Tax Collections	Total Collections
2004-05	16,657	16,657	100	-	16,657
2005-06	18,731	18,731	100	-	18,731
2006-07	21,466	21,466	100	-	21,466
2007-08	23,084	23,084	100	-	23,084
2008-09					

Source: County of Santa Clara Assessor's Office, as published in the City of Palo Alto, Certified Annual Financial Reports \_\_\_\_)



## Major Taxpayers

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

### CITY OF PALO ALTO Largest 2009-10 Local Secured Taxpayers

Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total (1)
Board of Regents Leland Stanford Jr. University (2)	Various Land Uses	\$3,477,782,612	17.18%
Loral Space & Communications Inc.	Industrial	210,131,513	1.04
Arden Realty LP	Office Building	111,897,100	0.55
Whisman Ventures LLC	Manufacturing	104,528,988	0.52
PPC Forest Towers LLC	Apartments	52,990,981	0.26
Pacific Hotel Development Venture LP	Hotel	43,686,071	0.22
Park Village Peninsula LLC	Apartments	37,294,748	0.18
A&P Children Investments LLC	Office Building	36,039,394	0.18
Calif. Pacific Comm. Corp.	Industrial	35,951,279	0.18
Hohbach Realty Co. LP	Apartments	34,096,555	0.17
529 Bryant St. Partners LLC	Office Building	32,000,000	0.16
Thoits Bros. Inc.	Office Building	31,755,698	0.16
Google Inc.	Industrial	30,449,396	0.15
Dennis A. Levett	Apartments	29,804,249	0.15
Salvatore & Stella Giovannotto	Apartments	28,476,774	0.14
Jaime & Elizabeth Wong	Commercial	26,339,705	0.13
APIP 2007 LLC	Apartments	25,699,074	0.13
Sterling Park LP	Residential Development	23,430,628	0.12
Summerhill Redwood Gate LLC	Residential Development	22,479,750	0.11
The Southwood Apartments	Apartments	21,039,848	0.10
		<u>\$4,415,874,363</u>	<u>21.83%</u>

Source: California Municipal Statistics, Inc.

(1) 2009-10 Local Secured Assessed Valuation: \$20,239,349,432.

(2) Taxable values only.

## Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective as of May 1, 2010. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column is the total dollar amount of obligations outstanding of each public agency identified in column 1; (3) the third column shows the percentage that the City's assessed valuation represents of the total assessed valuation of each public agency identified in column 1; and (4) the fourth column is an apportionment of the dollar amount of

each public agency's outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 3.

**CITY OF PALO ALTO  
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
(As of May 1, 2010)**

2009-10 Assessed Valuation: \$21,880,358,093

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/10</u>
Santa Clara County	8.104%	\$ 28,364,000
Santa Clara Valley Water District, Zone W-1	0.484	4,404
Foothill-De Anza Community College District	23.342	111,873,371
Palo Alto Unified School District	89.328	187,927,576
Fremont Union High School District	0.007	14,169
Mountain View-Los Altos Union High School District	1.040	339,545
Cupertino Union School District	0.004	4,795
Los Altos School District	1.038	942,701
Whisman School District	3.768	764,268
City of Palo Alto	100.	- (1)
El Camino Hospital District	0.093	134,827
City of Palo Alto Special Assessment Bonds	100.	35,690,000
Santa Clara Valley Water District Benefit Assessment District	8.104	<u>12,353,738</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$378,413,394</b>

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	8.104%	\$ 68,567,944
Santa Clara County Pension Obligations	8.104	31,447,152
Santa Clara County Board of Education Certificates of Participation	8.104	1,132,129
Foothill-DeAnza Community College District Certificates of Participation	23.342	5,625,422
Mountain View-Los Altos Union High School District Certificates of Participation	1.040	67,652
Cupertino Union School District Certificates of Participation	0.004	49
City of Palo Alto General Fund Obligations	100.	6,765,000
Santa Clara County Vector Control District Certificates of Participation	8.104	334,290
Midpeninsula Regional Open Space Park District General Fund Obligations	13.759	<u>15,656,095</u>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$129,595,733</b>

**COMBINED TOTAL DEBT** **\$508,009,127 (2)**

(1) Excludes general obligation bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt.....	- %
Combined Direct Debt (\$6,765,000).....	0.03%
Total Overlapping Tax and Assessment Debt.....	1.73%
Combined Total Debt.....	2.32%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source: California Municipal Statistics, Inc.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the City for the payment thereof. See "The Bonds—Security for the Bonds" above. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, and 218 and 1A, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIII A and all applicable laws.

### Article XIII A of the State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

### Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this

Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

#### **Article XIII B of the State Constitution**

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years.

If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

#### **Articles XIII C and XIII D 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 adds Articles XIII C and XIII D 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 XIII C 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. The voter approval requirements of Proposition 218 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.

Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIID, 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 party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

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.

### Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires 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 of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

## **Proposition 1A**

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

## **Possible Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 111, 218 and 1A 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 revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

## **LEGAL MATTERS**

### **Approval of Legal Proceedings**

The legality of the sale, execution and delivery of the Bonds is subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, acting as Bond Counsel. A proposed form of such legal opinion is attached hereto as Appendix C. Quint & Thimmig LLP, San Francisco, California, is acting as disclosure counsel to the City in connection with the issuance of the Bonds. Certain matters will be passed upon for the City by Gary M. Baum, Esq., the City Attorney.

Payment of the fees and expenses of Jones Hall and of Quint & Thimmig LLP are contingent upon issuance of the Bonds.

### **Absence of Material Litigation**

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to the purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to receive ad valorem taxes or to collect other revenues or contesting the City's ability to issue and repay the Bonds.

### **Tax Matters**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding paragraphs are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

### **CONTINUING DISCLOSURE**

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City's fiscal year (which date would be the March 31 following the current end of the City's fiscal year on June 30), commencing March 31, 2011, with the report for the 2009-10 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if

material. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

The City has had no instance in the previous five years in which it failed to comply in all material respects with any previous continuing disclosure obligation under the Rule.

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, A Division of the McGraw-Hill Companies ("Standard & Poor's"), have assigned their municipal bond ratings of "\_\_\_\_" and "\_\_\_\_" respectively, to the Bonds.

Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Moody's and Standard & Poor's. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such organizations, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **FINANCIAL ADVISOR**

The City has retained Stone & Youngberg LLC, of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

### **UNDERWRITING**

Under the terms of a competitive bid held on \_\_\_\_\_, 2010, \_\_\_\_\_ (the "Underwriter") has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (which is equal to the aggregate principal amount of the Bonds, plus a net original issue premium of \$\_\_\_\_\_, less an Underwriter's discount of \$\_\_\_\_\_). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.



### EXECUTION

The execution of this Official Statement and its delivery have been approved by the City Council.

CITY OF PALO ALTO

By \_\_\_\_\_  
City Manager

## APPENDIX A

### GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF PALO ALTO AND SANTA CLARA COUNTY

#### The City

The City is located in northern Santa Clara County (the "County"), approximately 35 miles south of the City of San Francisco. The City has a current population of approximately 64,500. It is part of the San Francisco Bay metropolitan area. Partly due to the presence of Stanford University, which is adjacent to the City, the City is considered the birthplace of the high technology industry that has made the County famous worldwide as Silicon Valley. The 630-acre Stanford Research Park includes prestigious and innovative high-tech leaders such as Hewlett-Packard, SAP America, Varian Medical Systems, VMware, Tibco Software, Space Systems Loral, the Electric Power Research Institute and Communications and Power Industries. The City is also a major employment center, including U.S. Department of Veteran Affairs' Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The nine City Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first City Council meeting in January. The Mayor presides over all City Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

#### Population

The following table shows a historical comparison of the respective populations of the City, the County and the State of California since 1970.

**CITY OF PALO ALTO, SANTA CLARA COUNTY,  
AND STATE OF CALIFORNIA  
Population Comparison**

Year	City of Palo Alto	Percent Change	Santa Clara County	Percent Change	State of California	Percent Change
1970	56,040	-	1,064,714	-	19,953,134	-
1980	55,225	-1.5%	1,295,071	2.2%	23,667,902	1.9%
1990	55,900	1.2	1,497,577	15.6	29,758,213	25.7
2000	58,598	4.8	1,682,585	12.4	33,873,086	13.8
2001	60,270	2.9	1,701,385	1.1	34,430,970	1.6
2002	60,326	0.1	1,715,329	0.8	35,063,959	1.8
2003	60,323	0.0	1,726,183	0.6	35,652,700	1.7
2004	60,487	0.3	1,738,654	0.7	36,199,342	1.5
2005	61,464	0.3	1,753,041	0.8	36,676,931	1.3
2006	62,108	1.0	1,771,610	1.1	37,086,191	1.1
2007	62,267	0.3	1,798,242	1.5	37,472,074	1.0
2008	63,098	1.3	1,829,480	1.7	37,883,992	1.1
2009	64,484	2.2	1,857,621	1.5	38,292,687	1.1

Sources: U.S. Department of Commerce, Bureau of the Census (1980, 1990 and 2000); State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2009, with 2000 Benchmark. Sacramento, California, May 2009.

## **History**

The earliest record of settlement in Palo Alto was dated 1769. The City is named for the tree by the banks of the San Francisquito Creek bordering Menlo Park. Many of the Spanish names in the Palo Alto area represent the local heritage and descriptive terms and former residents. In 1895, Leland Stanford came to the town of Mayfield (in what is now south Palo Alto), interested in founding his university there, and creating a train stop near his school. However, he had one condition: alcohol be banned from the town. Mayfield rejected his requests for reform. This prompted Stanford to drive the formation of Palo Alto in 1895. Stanford set up his university, Stanford University, and train stop. On July 2, 1925, Palo Alto voters approved the annexation of Mayfield and the two communities were officially consolidated on July 6, 1925.

## **Budgetary Policies and Processes**

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain public comments. The adopted budget is legally enacted through passage of a budget ordinance for all funds except for agency funds. The City Manager is authorized to reallocate funds from a contingent account maintained in the General Fund in conformance with the adopted policies set by the City Council. Additional appropriations to departments in the General Fund, or to total appropriations for all other budgeted funds, or transfers of appropriations between funds, require approval by the City Council. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund, and at the fund level for special revenue and debt service funds. Formal budgetary integration is employed as a management control device during the year in all funds except agency funds and certain debt service funds. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles for all funds, except that General Fund encumbrances are treated as budgetary expenditures when incurred and stores (materials, parts and supplies) transactions included in the General Fund are not budgeted. Expenditures for the City's Capital Projects Fund are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

## **Employment**

The City is home to a strong mix of large, medium and small firms. The City employment opportunities are much sought after and include: education at Stanford University, high technology at the Stanford Research Park, and health care at two medical facilities of national stature. Numerous institutions that have more than 1,000 employees include: the University, the Veterans Affairs Palo Health Care facility, the Medical Foundation, Hewlett Packard/Compaq, the Palo Alto Unified School District, and the City.

The largest employers in the City of Palo Alto as of June 30, 2008 are as follows:

**CITY OF PALO ALTO  
TEN LARGEST EMPLOYERS  
2007-08**

Employer	Number of Employees
HP Labs	7,500
Veteran's Affairs Palo Alto Health Care System	3,500
VA Palo Alto Health Care	2,900
Hewlett-Packard Company	2,001
Palo Alto Medical Foundation	2,000
Space Systems Loral	1,700
Wilson Sonsini Goodrich Rosati	1,500
Packard Children's Hospital	1,300
City of Palo Alto	1,100
Roche Palo Alto	1,000

Source: [www.ReferenceUSA.com](http://www.ReferenceUSA.com) & Palo Alto Weekly, as published in City of Palo Alto Certified Annual Financial Report 2007-08

Due to the nature of local industry, with its heavy emphasis on electronics, aerospace and research, the County has attracted many professional people and industrial workers possessing skills well above the average.

The Santa Clara Labor Market, as defined by the State Employment Development Department, includes all cities within Santa Clara County. This area is a highly developed industrial, research, and educational center of employment for a labor force that ranks well above the average in educational attainment and income. The following table presents the annual average wage and salary employment figures by industry classification for the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area for the years 2004 through 2008.

According to the California Employment Development Department, the County's unemployment rate was 6.0% in 2008, up from 4.7% in 2007. The following table sets forth certain information regarding employment in the City from calendar year 2002 through 2008.

**SAN JOSE-SUNNYVALE-SANTA CLARA MSA**  
(San Benito and Santa Clara Counties)  
**Industry Employment & Labor Force - by Annual Average**  
**March 2008 Benchmark**

	2004	2005	2006	2007	2008
Civilian Labor Force	850,100	844,500	854,300	876,500	905,200
Civilian Employment	794,500	798,600	815,300	834,800	850,100
Civilian Unemployment	55,600	45,900	38,900	41,700	55,100
Unemployment Rate	6.5%	5.4%	4.6%	4.8%	6.1%
Agricultural	6,700	6,300	6,200	6,700	6,100
Natural Resources and Mining	100	200	300	300	300
Construction	43,000	44,500	46,800	47,200	44,200
Manufacturing	167,200	164,900	163,700	166,700	168,000
Trade, Transportation and Utilities	130,900	132,800	137,100	139,700	138,500
Information	32,600	35,300	37,500	39,600	41,700
Financial Activities	35,400	36,300	37,100	37,200	34,800
Professional and Business Services	165,600	165,800	172,000	178,300	178,700
Educational and Health Services	95,000	96,800	100,400	103,200	107,500
Leisure and Hospitality	70,900	72,800	75,200	76,800	78,200
Other Services	25,000	24,600	24,800	25,100	25,300
Government	96,300	95,900	96,400	97,200	97,800
Total All Industries	868,700	876,300	897,400	917,900	921,200

Source: California Employment Development Department, Labor Market Information Division.

Note: Totals may not add due to independent rounding.

**CITY OF PALO ALTO**  
**Average Annual Civilian Labor Force**  
**Employment and Unemployment**  
**Calendar Years 2002-2008**

Year	Labor Force	Unemployment Number	Rate
2002	32,000	1,400	3.7%
2003	30,500	1,400	4.5%
2004	29,900	1,000	3.4%
2005	29,900	800	2.8%
2006	30,400	700	2.3%
2007	31,200	800	2.5%
2008	32,000	1,000	3.2%

Source: California Employment Development Department

**Construction Activity**

"Single Family Housing" includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. "Multi-Family Housing" includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing

also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. "Residential Alterations and Additions" means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

"New Commercial" includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. "New Industrial" includes manufacturing plants and affiliated buildings. "Other New Nonresidential" includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. "Nonresidential Alterations and Additions" means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

**CITY OF PALO ALTO**  
**Building Permits and Valuation**  
**(Dollars in Thousands)**

	2004	2005	2006	2007	2008
<u>Permit Valuation:</u>					
New Single-family	\$ 28,337	\$ 46,957	\$ 78,044	\$ 82,769	\$ 50,213
New Multi-family	22,125	13,911	28,338	81,679	27,827
Res. Alterations/Additions	32,993	36,943	30,770	34,756	33,897
Total Residential	83,455	97,811	137,152	199,204	111,937
Total Nonresidential	48,393	131,289	168,817	133,547	90,019
Total All Building	<u>\$131,848</u>	<u>\$229,101</u>	<u>\$303,969</u>	<u>\$332,751</u>	<u>\$201,956</u>
<u>New Dwelling Units:</u>					
Single Family	58	82	147	195	102
Multiple Family	149	83	117	294	125
Total	<u>207</u>	<u>165</u>	<u>264</u>	<u>489</u>	<u>227</u>

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

## Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the median household effective buying income for the City, the County of Santa Clara, the State of California and the nation for the years 2004 through 2008.

### CITY, COUNTY, STATE AND UNITED STATES Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004	City of Palo Alto	\$ 2,877,945	\$73,411
	County of Santa Clara	474,763	62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Palo Alto	\$ 2,733,365	\$74,484
	County of Santa Clara	46,910,278	63,293
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Palo Alto	\$ 2,839,023	\$77,184
	County of Santa Clara	49,261,000	65,458
	California	764,120,962	46,275
	United States	6,107,092,244	41,255
2007	City of Palo Alto	\$ 3,000,778	\$79,273
	County of Santa Clara	52,377,985	67,498
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Palo Alto	\$ 3,088,305	\$80,515
	County of Santa Clara	53,987,635	68,929
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: "Survey of Buying Power," Sales and Marketing Management (2004); Nielsen Claritas, Inc. (2005-2008).

\* In 2005, Sales and Marketing Management ceased publishing the "Survey of Buying Power" report; however, subsequent years' data has been obtained from Nielsen Claritas, Inc., who had previously prepared the data each year for the "Survey of Buying Power."

## Commercial Activity

Taxable sales in the City of Palo Alto exceed \$1.8 billion annually. The County Planning Department reports that taxable sales per capita in Santa Clara are the highest of any city in Santa Clara County. The following summary shows the annual volume of taxable sales within the City since 2004.

The following table shows annual sales tax revenues for the City for the last five years.

<b>CITY OF PALO ALTO</b>					
<b>Taxable Transactions</b>					
	2004	2005	2006	2007	2008 (1)
Apparel stores	\$121,820	\$127,235	\$129,903	\$134,920	\$173,360
General merchandise	276,625	284,186	289,288	301,192	230,521
Foods stores	34,120	33,726	33,495	31,781	28,328
Eating and drinking places	202,651	208,128	224,276	234,084	239,517
Home furnishings and appliances	59,936	64,308	68,273	75,510	103,878
Building materials	20,159	23,619	26,258	24,437	24,143
Automotive Group	196,341	203,998	202,441	187,342	149,857
Service stations	49,511	56,548	60,078	63,418	66,214
All other retail stores	239,684	248,882	250,153	224,463	197,029
Total Retail Outlets	1,200,847	1,250,630	128,465	1,277,147	1,212,847
All other outlets	419,867	458,491	551,068	629,859	587,667
Total All Outlets	\$1,620,714	\$1,709,121	\$1,835,233	\$1,907,006	\$1,800,514

Source: California State Board of Equalization, Taxable Sales in California Reports 2004-2008.

(1) Latest available full-year data.

## Education

The Palo Alto Unified School District provides public schooling from kindergarten through high school. The Stanford University is the second largest university campus in the world. The University comprises the Schools of Engineering, Law, Medicine, Education, Business, Earth Sciences and Humanities and Science. Stanford University's teaching hospital and clinics are known for excellence.

## Community Facilities

The City has some of the most outstanding healthcare facilities in California. Most prominent in the community is Stanford Hospital & Clinics, which is part of Stanford University Medical Center. With 611 beds for in-patient treatment, emergency care and major surgeries, Stanford Hospital is well known for its cancer treatment, oncology and transplant services.

Medical groups affiliated with Stanford Hospital & Clinics are Stanford Family Practice, Stanford Medical Group and Menlo Medical Clinic, and also includes the Stanford University School of Medicine and the Lucile Packard Children's Hospital.

The Veterans Affairs Palo Alto Health Care System provides the main campus in Palo Alto, a second campus in Menlo Park and a third campus in Livermore.

The Palo Alto Health Care System has 913 operating beds including three nursing homes and a 100-bed homeless domiciliary on the Menlo Park campus. The Health Care System is affiliated with the Stanford University School of Medicine.

The Palo Alto Medical Foundation is a full-service health-care clinic and research institute. Nearly 250 physicians provide a range of diagnostic and treatment services in primary care and most medical specialties.

The City's Parks and Recreation Department oversees 34 parks and playgrounds covering nearly one-third of its 26 square miles. The City's San Francisco Bay location and natural environment offer the



opportunity to enjoy bird and aquatic life in a natural habitat. There is one golf course located in the City, a recently renovated 18-hole championship length course.

### **Transportation**

The City is served by the Bayshore Freeway (U.S. Highway 101), which runs southeast from San Francisco to Los Angeles and is the major freeway connecting San Francisco and San Jose; Highway 84 - the Dumbarton Bridge and Highway 92, the Hayward-San Mateo Bridge; and Interstate 280, which runs north/south to San Francisco and State Highway 82. These freeways link the City to all parts of northern California.

Air transportation is available at both the San Francisco International Airport, approximately 40 miles to the north, and the San Jose Airport, approximately 20 miles to the south. Rail service is provided by Union Pacific Railroad, on a north/south track linking San Jose and San Francisco, and Cal Train commuter service to Gilroy and San Francisco.

Within the City, commuter rail transportation is conveniently located and the Palo Alto—University Avenue stop is one of the most used in the CalTrain system. Alternative transportation options include numerous bike paths throughout the City and an internal shuttle service is also available.

### **Utilities and Water Supply**

The City is the only municipal utility in California that operates city-owned utility services that include electric, fiber optic, natural gas, water and wastewater services. Since 1896, the City has been providing quality services to the citizens and businesses of the City.

### **Agriculture**

The City still supports a thriving agriculture industry, ranging from crops and wine to Leland Stanford's horse farm and training facilities, the Dixon Stables, Portola Valley Training Center, and Webb Ranch are just a few of the equestrian facilities that live up to the area's rich history. Just a few miles away off Highway 280, traditional ranches such as Hidden Villa continue to grow and distribute quality products. Organic grocery stores, such as Whole Foods Market, Piazza's Market and Trader Joe's share the market place with traditional grocery outlets and fresh fruit and vegetable stands.

Local greenhouses and florists provide a diverse selection to help residents and business beautify their yards and homes. The area also features a number of machinery and equipment outlets to make agriculture related job feasible.

### **Government and Services**

The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The nine City Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first City Council meeting in January. The Mayor presides over all City Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

The City provides a full range of municipal services and maintains municipal electric, water, gas, wastewater collection, wastewater treatment, storm drainage, and refuse utilities for the benefit of City residents and businesses. The City's parks, recreation and cultural facilities are numerous, and include 34 parks, a golf course, four community centers, a Cultural Center, a Community Theater, a Children's Theater, and a Junior Museum. The City offers a wide array of social, recreational and cultural events, including human services for seniors and youth, subsidized child care, classes, concerts, exhibits, team sports and special events. The City and the Palo Alto Unified School District have an agreement to jointly fund the costs of maintaining and rehabilitating school athletic fields, recognizing the significant recreational use of these facilities by the community. In addition, the City offers a high level of library

and public safety services. The City has five libraries and eight fire stations providing services throughout the community.

**APPENDIX B**

**CITY OF PALO ALTO**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

[Letterhead of Jones Hall, A Professional Law Corporation]

[Closing Date]

City Council  
City of Palo Alto  
525 Henrietta Street  
Palo Alto, California 94553

**OPINION:**     \$\_\_\_\_\_ \* City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A

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Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Palo Alto (the "City") of its general obligation bonds captioned above, dated June \_\_, 2010 (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on May 10, 2010 (the "Resolution") and a Paying Agent Agreement dated as of June 1, 2010 (the "Paying Agent Agreement") between the City and U.S. Bank National Association, as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Paying Agent Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly organized and validly existing as a charter city and municipal corporation under the Constitution and laws of the State of California, with the power to adopt the Resolution, to execute and deliver the Paying Agent Agreement and to perform the agreements on its part contained therein, and to issue the Bonds.
2. The Paying Agent Agreement constitutes a valid and binding obligation of the City, enforceable against the City in accordance with its terms.
3. The Bonds have been duly authorized, executed and delivered by the City, and are valid and binding general obligations of the City.
4. The City has the power, is obligated, and in the Paying Agent Agreement has covenanted, to levy *ad valorem* taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the Bonds and the interest thereon.
5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on

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\* Preliminary, subject to change.

individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF PALO ALTO (the "City") in connection with the issuance by the City of its \$\_\_\_\_\_ \* aggregate principal amount of City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the "Bonds"). The Bonds are being issued under Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code; under a Resolution adopted by the City Council of the City (the "City Council") on May 10, 2010 (the "Bond Resolution"), and under a Paying Agent Agreement (the "Paying Agent Agreement") dated as of June 1, 2010, by and between the City and U.S. Bank National Association, as paying agent. The City covenants and agrees as follows:

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

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

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

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

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository for documents filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

#### Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report to MSRB.* The City shall, or shall cause the Dissemination Agent to, not later than eight months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2009-2010 Fiscal Year, which is due not later than March 1, 2011, provide to the

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\* Preliminary, subject to change.

Participating Underwriter and to file with EMMA, in a readable pdf or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

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

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

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

(a) Audited financial statements of the City for the preceding fiscal year, prepared in accordance with the laws of the State and including all statements and information prescribed for inclusion therein by the Controller of the State. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited final statement or the Comprehensive Annual Financial Report (CAFR) of the City, the Annual Report shall also include operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds, as follows:

[TO BE DETERMINED]

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

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

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

#### Section 5. Reporting of Significant Events.

(a) *Listed Events.* 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 Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

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

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

(d) *Notice of Listed Events.* The City shall file, or cause the Dissemination Agent to file, a notice of the occurrence of a Listed Event, if material, with EMMA, in a readable PDF or other electronic format as prescribed by EMMA, with a copy to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) (defeasances) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Bondholders of affected Bonds.

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

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

#### Section 8. Dissemination Agent.

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

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



counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City.

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

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

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

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

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

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

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities 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 attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF PALO ALTO

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

## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the City of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, the Paying Agent and the Underwriter understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect

only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC, if less than all of the Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

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

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the Bonds by Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City, the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Paying Agent takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on

the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Paying Agent cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Paying Agent are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

## ATTACHMENT B

### First Series of Bonds

Name	Projected Total Cost		
	Design Phase	Construction Phase	Total
Temporary Library - Cubberley	270,000	330,000	600,000
Downtown Library	927,000	4,285,000	5,212,000
MP Library & Comm Ctr	6,540,000	42,258,000	48,798,000
Main Library	2,890,000	0	2,890,000
Temporary Library for Main	340,000	660,000	1,000,000
<b>TOTALS</b>	<b>10,967,000</b>	<b>47,533,000</b>	<b>58,500,000</b>

**ESTIMATED PROJECT COSTS AND PAR AMOUNT OF BONDS** 58,500,000

### Second Series of Bonds

Name	Projected Total Cost		
	Design Phase	Construction Phase	Total
Temporary Library - Cubberly	0	0	0
Downtown Library	0	0	0
MP Library & Comm Ctr	0	0	0
Main Library	0	14,900,000	14,900,000
Temporary Library for Main	0	0	0
<b>TOTALS</b>	<b>0</b>	<b>14,900,000</b>	<b>14,900,000</b>

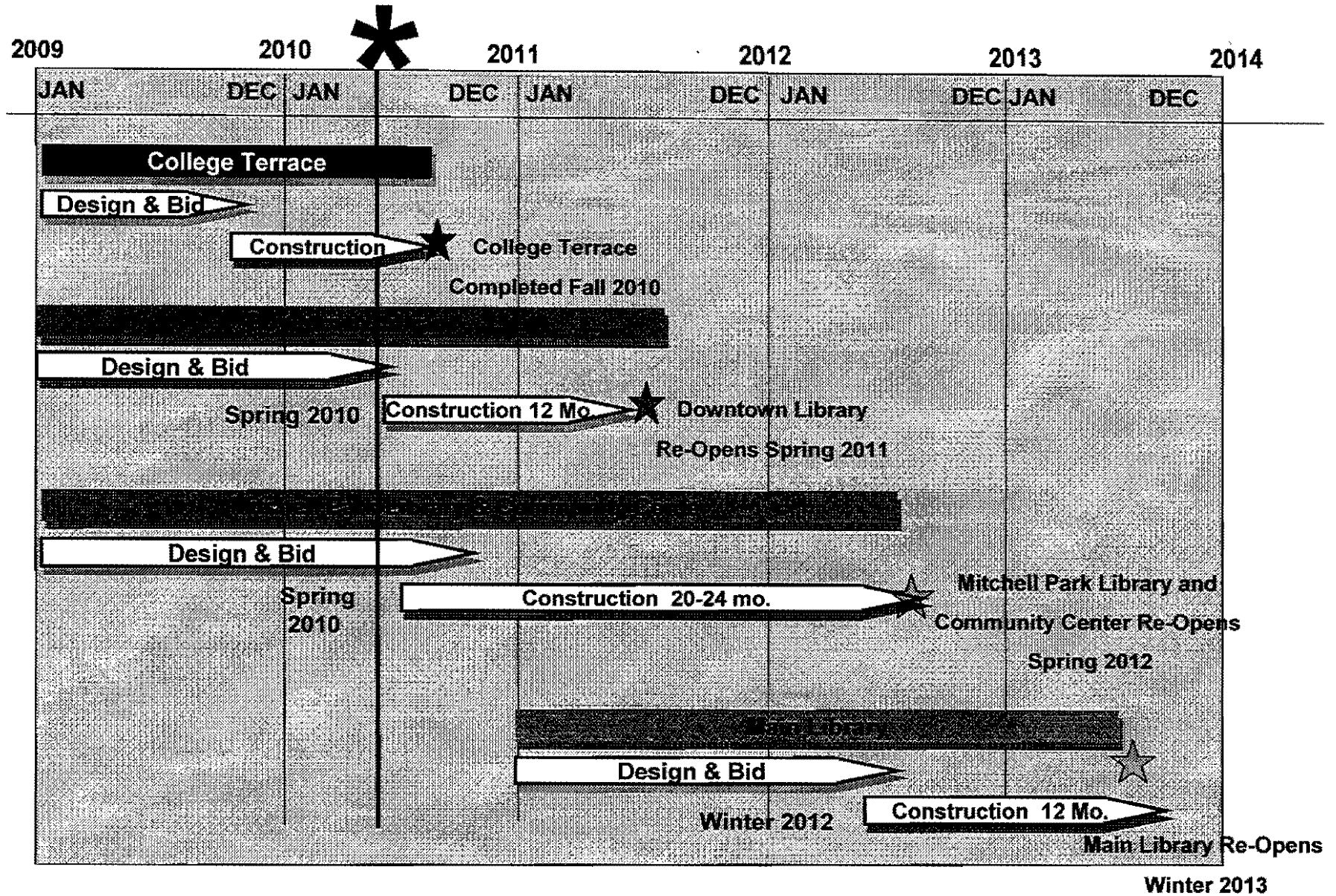
**ESTIMATED PROJECT COSTS AND PAR AMOUNT OF BONDS** 14,900,000

**TOTAL ESTIMATED PROJECT COSTS EXCLUDING COSTS OF ISSUANCE** 73,400,000

**ESTIMATED COSTS OF ISSUANCE FOR FIRST SERIES OF BONDS** 728,000

**ESTIMATED COSTS OF ISSUANCE FOR SECOND SERIES OF BONDS** TBD

# ATTACHMENT C



## PROJECT SCHEDULE

## Next Steps:

### Downtown Library

<i>Closing Ceremony</i>	<i>April 23</i>
<i>Last Day of Operations</i>	<i>April 24</i>
Move out & Abatement work	May
Council Award of Contract & Start of Construction	June

### Mitchell Park Library & Community Center

Last Day of Library Operation	June 5	
Last Day of CC Operation		June 12
Ground-Breaking Celebration	June 12	
Council Award of Construction Contact		June
Start of Construction		July

### Main Library

Design Development & Construction Documents	July 2010-	December 2011
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