City Council Staff Report

Report Type: Action Items  Meeting Date: 7/18/2011

Council Priority: City Finances

Summary Title: Refinancing of General Fund Debt

Title: A Resolution Approving, Authorizing and Directing the Refinancing of the outstanding 1998 Golf Course Lease and Certificates of Participation in the Amount of $3,690,000 and Approval of Related Documents

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that the City Council approve: 1) the attached resolution (Attachment A) authorizing staff to refinance $3.69 million in outstanding 1998 Golf Course Lease and Certificates of Participation, and 2) official documents related thereto.

Background
In 1998 the City issued Certificates of Participation (COPs) in the amount of $7.75 million to finance Golf Course capital improvements. These included, for example, replacing the irrigation system, upgrading five fairways and the driving range, and installing new cart paths. COPs are a legal and long-standing financing mechanism by which cities enter into lease agreements with corporations, such as the Palo Alto Public Improvement Corporation (PIC), to undertake capital work. Certificates of participation, which represent the right to receive the tax exempt lease payments payable by the City under the Lease, are then sold to an underwriter, the public or a bank, in return for cash to make infrastructure improvements.

Discussion
As of June 1, 2011, the principal amount remaining on the 1998 COPs was $3.69 million. In working with the City’s new Financial Advisor, Public Financial Management (PFM), it was determined that annual General Fund debt service costs could be reduced by refinancing these COPs. After following the private placement process described below and selecting a bid by JP Morgan Chase Bank, the City will realize, in net present value terms, nearly $239,000 or 6.47 percent on the refunded bonds. Between the low interest rate of 2.49 percent proposed by JP Morgan and the use of nearly $624,000 in a debt service reserve fund (required by the original COP financing) to offset principal owed to current bondholders, the General Fund will reduce its annual debt service costs by approximately $134,000 annually over the next eight years. Given the pressing need for GF savings and that the NPV savings of 6.47 percent that exceeds the
typically used threshold of 3.0 percent to determine a refinancing, staff recommends moving forward with the refinancing with JP Morgan Chase.

It is important to note that staff is recommending a different refinancing vehicle than those used in the recent past. Instead of advertising a sale of the COPs on a particular date to obtain competitive bids from interested underwriters, staff utilized what is called a “private placement” with a selected underwriter or bank. The process of completing a private placement typically requires fewer steps than a public sale of municipal bonds. The first task is for the City’s Financial Advisor to circulate a Request for Proposals (RFP) to several banks to solicit interest in acting as the placement agent for the City. In the term sheet sent to qualified lenders, the City requested fixed interest rates, an amortization schedule matching the 1998 COPs, and the flexibility to pre-pay the new lease without penalty. The requests for proposals were sent out to 23 banks, and a total of 9 proposals were received (including alternative proposals from the same bidder). The City, PFM, and Bond Counsel have reviewed the pricing and terms and conditions of each proposal, and the best overall bid in terms of savings was submitted by JP Morgan Chase Bank. The next best overall bid resulted in NPV savings of $216,000 or 5.86 percent, was $23,000 and 0.61 percent less, respectively, than JP Morgan Chase's bid.

There are several major benefits to using a private placement. First, staff has been advised by PFM and its Bond and Disclosure Counsels that a $3.69 million issue is too small to elicit attention and competitive bids from the bond market, particularly in a market that is somewhat unstable in terms of lending and credit concerns. Secondly, a private placement would save the City a variety of fees or costs associated with selling bonds on the open market. These include, for example, a fee for the work performed by a Disclosure Counsel, the public rating fees charged by Standard and Poor’s and Moody’s, and publication costs for an Official Statement. The due diligence typically performed in a public sale would be performed instead by the bank or underwriter submitting a proposal to buy the City's new lease obligation. Thirdly, and as stated above, the time frame to sell the City’s debt in a private placement is shorter and subject to less uncertainty (in the event market rates move upward and against the City by the time a competitive bid process is held). Finally, the lack of a reserve requirement through the private placement allows the City to reduce the amount of principal outstanding and to lower annual debt service costs at a point in time when the General Fund is under stress.

The City and its financing team have been working with the professionals at JP Morgan to negotiate the final terms and conditions of the agreement. In a sale of COPs, an asset must be leased to secure the lease payments. For the 1998 COPs, the Golf Course was pledged. Because the Golf Course has value far in excess of the now remaining debt, staff does not recommend using it as collateral on this relatively small transaction. (COPs are a potential option to address the City's infrastructure needs and the higher value assets could be used to secure higher borrowing levels.) Instead staff is recommending that the City’s fleet of fire apparatus be used as the leased asset. (A copy of the rolling stock subject to the lease is included in Attachment B). Twenty one (21) vehicles are being leased and their original cost
value was $6.56 million. The oldest of these vehicles were purchased in 1991 and the newest was purchased in 2009. By using this asset, the City retains its real property assets for other COPs transactions down the line. The City has included language in the proposed agreement with JP Morgan Chase to substitute other rolling stock assets in the event that one or more of the pledged fire apparatus is eliminated. The City maintains complete control of the fire vehicles during the debt amortization period.

Resource Impact
Pending Council approval, the City will enter into a Master Lease-Purchase Agreement with Chase Equipment Finance, Inc. in the principal amount of approximately $3.235 million. General Fund annual debt service costs will be reduced by approximately $134,000 annually over the next eight years (matching the existing debt timeline). Again, NPV savings are $239,000 or 6.47 percent of the COPs being refunded.

Policy Implications
While there is no Council policy on the methods of refinancing debt, the traditional approach has been to refund bonds with competitive bids in the open bond market. A private placement with an underwriter or bank departs from this practice.

Timeline
July 18, 2011 City Council Meeting to Approve Financing Documents and Private Placement Bank

Week of August 1 Private Placement of Lease (closing)

Environmental Review
This is not a project requiring CEQA review.

Attachments:
- Attachment A: Resolution Approving, Authorizing and Directing Execution of Certain Lease Refinancing Documents, and Authorizing and Directing Certain Actions with Respect Thereto (PDF)
- Exhibit A: JPMorgan Chase's Master Lease Purchase Agreement (PDF)
- Exhibit B: Addendum B to JP Morgan Chase's Master Lease Purchase Agreement (PDF)
- Exhibit C: Escrow Agreement with US Bank National Association (PDF)
- Exhibit D: Notice of Prepayment (PDF)
- Attachment B: Fire (Rolling Stock) Equipment (PDF)

Prepared By: Joe Saccio, Assistant Director of Administrative Services
Resolution No. _____
Resolution of the Council of the City of Palo Alto Approving,
Authorizing And Directing Execution Of Certain Lease
Refinancing Documents, And Authorizing And Directing Certain
Actions With Respect Thereto

The Council of the City of Palo Alto does hereby resolve as follows:

WHEREAS, the City has heretofore leased certain real property, consisting of the
Palo Alto municipal golf course, including certain improvements financed thereon, by a lease
transaction between the City and the Palo Alto Public Improvement Corporation (the
“Corporation”) in 1998, pursuant to that certain property lease, dated as of August 1, 1998, by
and between the City, as lessor, and the Corporation, as lessee (the "1998 Property Lease"), and
a lease agreement, dated as of August 1, 1998, by and between the Corporation, as lessor, and
the City, as lessee (the "1998 Lease"); and

WHEREAS, the City has determined that it is in the interests of the City at this time
to provide for the refinancing of the 1998 Lease and the Certificates of Participation executed
and delivered in connection therewith in the original principal amount of $7,750,000 (the “1998
Certificates”), by entering into a Master Lease-Purchase Agreement, between the City and Chase
Equipment Finance, Inc. (the “Lessor”), in substantially the form attached hereto as Exhibit A, as
amended by those certain conditions set forth in the Lease Addenda, attached hereto as Exhibit B
(as so amended, the “Lease Agreement”); and

WHEREAS, under the Lease Agreement, the Lessor will lease to the City those
certain vehicles and other items of Fire Department Rolling Stock identified in the attached
Exhibit C; and

WHEREAS, for the purpose of obtaining the moneys required to be deposited with
U.S. Bank Trust National Association (the "Escrow Bank") to refund the 1998 Lease and the
1998 Certificates, the City will cause the Lessor to deposit with the Escrow Bank an amount
sufficient to refund the 1998 Lease and 1998 Certificates, and pay costs of issuance incurred in
connection therewith, pursuant to an Escrow Agreement, dated as of August 1, 2011, between
the City and the Escrow Bank (the “Escrow Agreement”);

WHEREAS, in connection therewith, it is in the public interest and for the public
benefit that the City authorize and direct execution of the Lease Agreement, the Escrow
Agreement and Termination of Lease Agreements (described below) in connection therewith;
and

WHEREAS, the documents below specified have been filed with the City, and the
members of the City Council, with the aid of its staff, have reviewed said documents;
NOW, THEREFORE, it is hereby ORDERED and DETERMINED, as follows:

SECTION 1. The below-enumerated documents be and are hereby approved, and the Mayor, the City Manager, the Administrative Services Director or a designee appointed by any such officer (in each case, an "Authorized Officer") are hereby separately authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the City Clerk is hereby authorized and directed to attest to such Authorized Officer's signature:

(a) a Lease Agreement, so long as the stated term of the Lease Agreement does not extend beyond the original term of the 1998 Lease (except in the case of default), and so long as the refunding of the 1998 Certificates and 1998 Lease achieves net present value savings of at least 3% of the principal amount of the 1998 Certificates and 1998 Lease being refunded;

(b) an Escrow Agreement, by and between the City and the Escrow Bank, relating to the deposit by the Lessor with the Escrow Bank of an amount sufficient to refund the 1998 Lease and 1998 Certificates, and pay costs of issuance incurred in connection therewith; and

(c) A Termination of Lease Agreements, relating to the termination of the 1998 Property Lease and the 1998 Lease, between the Corporation and the City.

SECTION 2. The Authorized Officer, the City Clerk and other officials of the City are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the lease financing and refinancing herein authorized.
SECTION 3. This Resolution shall become effective upon adoption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

_________________________________  __________________________________
City Clerk    Mayor

APPROVED AS TO FORM:

_________________________________
City Manager

_________________________________
Senior Asst City Attorney  Director of Administrative Services / CFO

_________________________________
William H. Madison,  Director of Community Services
Bond Counsel
MASTER LEASE-PURCHASE AGREEMENT

Dated As of: SAMPLE

Lessee: SAMPLE

This Master Lease-Purchase Agreement together with all addenda, riders and attachments hereto, as the same may from time to time be amended, modified or supplemented ("Master Lease") is made and entered by and between CHASE EQUIPMENT FINANCE, INC. ("Lessor") and the lessee identified above ("Lessee").

1. LEASE OF EQUIPMENT. Subject to the terms and conditions of this Master Lease, Lessor agrees to lease to Lessee, and Lessee agrees to lease from Lessor, all Equipment described in each Schedule signed from time to time by Lessee and Lessor.

2. CERTAIN DEFINITIONS. All terms defined in the Lease are equally applicable to both the singular and plural form of such terms. (a) "Schedule" means each Lease Schedule signed and delivered by Lessee and Lessor, together with all addenda, riders, attachments, certificates and exhibits thereto, as the same may from time to time be amended, modified or supplemented. Lessee and Lessor agree that each Schedule (except as expressly provided in said Schedule) incorporates by reference all of the terms and conditions of the Master Lease. (b) "Lease" means any one Schedule and this Master Lease as incorporated into said Schedule. (c) "Equipment" means the property described in each Schedule, together with all attachments, additions, improvements, replacements and substitutions thereto. (d) "Lien" means any security interest, lien, mortgage, pledge, encumbrance, judgment, execution, attachment, warrant, writ, levy, other judicial process or claim of any nature whatsoever by or of any person.

3. LEASE TERM. The term of the lease of the Equipment described in each Lease ("Lease Term") commences on the first date any of such Equipment is accepted by Lessee pursuant to Section 5 hereof or on the date specified in the Schedule for such Lease and, unless earlier terminated as expressly provided in the Lease, continues until Lessee's payment and performance in full of all of Lessee's obligations under the Lease.

4. RENT PAYMENTS.

4.1 For each Lease, Lessee agrees to pay to Lessor the rent payments in the amounts and at the times as set forth in the Payment Schedule attached to the Schedule ("Rent Payments"). A portion of each Rent Payment is paid as and represents the payment of interest as set forth in the Payment Schedule. Lessee acknowledges that its obligation to pay Rent Payments including interest therein accrues as of the Accrual Date stated in the Schedule or its Payment Schedule; provided, that no Rent Payment is due until Lessee accepts the Equipment under the Lease or the parties execute an escrow agreement. Rent Payments will be payable for the Lease Term in U.S. dollars, without notice or demand at the office of Lessor (or such other place as Lessor may designate from time to time in writing).

4.2 If Lessor receives any payment from Lessee later than ten (10) days from the due date, Lessee shall pay Lessor on demand as a late charge five per cent (5%) of such overdue amount, limited, however, to the maximum amount allowed by law.

4.3 EXCEPT AS SPECIFICALLY PROVIDED IN SECTION 6 HEREOF OR IN ANY WRITTEN MODIFICATION TO THE LEASE SIGNED BY LESSOR, THE OBLIGATION TO PAY RENT PAYMENTS UNDER EACH LEASE SHALL BE ABSOLUTE AND UNCONDITIONAL IN ALL EVENTS AND SHALL NOT BE SUBJECT TO ANY SETOFF, DEFENSE, COUNTERCLAIM, ABATEMENT OR RECOUPEMENT FOR ANY REASON WHATSOEVER.

5. DELIVERY; ACCEPTANCE; FUNDING CONDITIONS.

5.1 Lessee shall arrange for the transportation, delivery and installation of all Equipment to the location specified in the Schedule ("Location") by Equipment suppliers ("Suppliers") selected by Lessee. Lessee shall pay all costs related thereto.

5.2 Lessee shall accept Equipment as soon as it has been delivered and is operational. Lessee shall evidence its acceptance of any Equipment by signing and delivering to Lessor the applicable Schedule. If Lessee signs and delivers a Schedule and if all Funding Conditions have been satisfied in full, then Lessor will pay or cause to be paid the costs of such Equipment as stated in the Schedule ("Purchase Price") to the applicable Supplier.
5.3 Lessor shall have no obligation to pay any Purchase Price unless all reasonable conditions established by Lessor ("Funding Conditions") have been satisfied, including, without limitation, the following: (a) Lessee has signed and delivered the Schedule and its Payment Schedule; (b) no Event of Default shall have occurred and be continuing; (c) no material adverse change shall have occurred in the Internal Revenue Code of 1986, as amended, and the related regulations and rulings thereunder (collectively, the "Code"); (d) no material adverse change shall have occurred in the financial condition of Lessee or any Supplier; (e) the Equipment is reasonably satisfactory to Lessor and is free and clear of any Liens (except Lessor's Liens); (f) all representations of Lessee in the Lease remain true, accurate and complete; and (g) Lessor has received all of the following documents, which shall be reasonably satisfactory, in form and substance, to Lessor: (1) evidence of insurance coverage required by the Lease; (2) an opinion of Lessee's counsel; (3) reasonably detailed invoices for the Equipment; (4) Uniform Commercial Code (UCC) financing statements; (5) copies of resolutions by Lessee's governing body authorizing the Lease and incumbency certificates for the person(s) who will sign the Lease; (6) such documents and certificates relating to the tax-exempt interest payable under the Lease (including, without limitation, IRS Form 8038G or 8038GC) as Lessor may request; and (7) such other documents and information previously identified by Lessor or otherwise reasonably requested by Lessor.

6. TERMINATION FOR GOVERNMENTAL NON-APPROPRIATIONS.

6.1 For each Lease, Lessee represents and warrants: that it has appropriated and budgeted the necessary funds to make all Rent Payments required pursuant to such Lease for the remainder of the fiscal year in which the Lease Term commences; and that it currently intends to make Rent Payments for the full Lease Term as scheduled in the applicable Payment Schedule if funds are appropriated for the Rent Payments in each succeeding fiscal year by its governing body. Without contractually committing itself to do so, Lessee reasonably believes that moneys in an amount sufficient to make all Rent Payments can and will lawfully be appropriated therefor. Lessee directs the person in charge of its budget requests to include the Rent Payments payable during each fiscal year in the budget request presented to Lessee's governing body for such fiscal year; provided, that Lessee's governing body retains authority to approve or reject any such budget request. All Rent Payments shall be payable out of the general funds of Lessee or out of other funds legally appropriated therefor. Lessor agrees that no Lease will be a general obligation of Lessee and no Lease shall constitute a pledge of either the full faith and credit of Lessee or the taxing power of Lessee.

6.2 If Lessee's governing body fails to appropriate sufficient funds in any fiscal year for Rent Payments or other payments due under a Lease and if other funds are not legally appropriated for such payments, then a "Non-Appropriation Event" shall be deemed to have occurred. If a Non-Appropriation Event occurs, then: (a) Lessee shall give Lessor immediate notice of such Non-Appropriation Event and provide written evidence of such failure by Lessee's governing body; (b) on the Return Date, Lessee shall return to Lessor all, but not less than all, of the Equipment covered by the affected Lease, at Lessee's sole expense, in accordance with Section 21 hereof; and (c) the affected Lease shall terminate on the Return Date without penalty to Lessee, provided, that Lessee shall pay all Rent Payments and other amounts payable under the affected Lease for which funds shall have been appropriated, provided further, that Lessee shall pay month-to-month rent at the rate set forth in the affected Lease for each month or part thereof that Lessee fails to return the Equipment under this Section 6.2. "Return Date" means the last day of the fiscal year for which appropriations were made for the Rent Payments due under a Lease.

7. LIMITATION ON WARRANTIES. LESSOR MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, AS TO THE MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OF THE EQUIPMENT OR AS TO THE VALUE, DESIGN, CONDITION, USE, CAPACITY OR DURABILITY OF ANY OF THE EQUIPMENT. For and during the Lease Term, Lessor hereby assigns to Lessee any manufacturer's or Supplier's product warranties, express or implied, applicable to any Equipment and Lessor authorizes Lessee to obtain the customary services furnished in connection with such warranties at Lessee's sole expense. Lessee agrees that (a) all Equipment will have been purchased by Lessor in accordance with Lessee's specifications from Suppliers selected by Lessee, (b) Lessor is not a manufacturer or dealer of any Equipment and has no liability for the delivery or installation of any Equipment, (c) Lessor assumes no obligation with respect to any manufacturer's or Supplier's product warranties or guaranties, (d) no manufacturer or Supplier or any representative of said parties is an agent of Lessor, (e) any warranty, representation, guaranty or agreement made by any manufacturer or Supplier or any representative of said parties shall not be binding upon Lessor.

8. TITLE; SECURITY INTEREST.

8.1 Upon Lessee's acceptance of any Equipment under a Lease, title to the Equipment shall vest in Lessee, subject to Lessor's security interest therein and all of Lessor's other rights under such Lease including, without limitation, Sections 6, 20 and 21 hereof.

8.2 As collateral security for the Secured Obligations, Lessee hereby grants to Lessor a first priority security interest in any and all of the Equipment (now existing or hereafter acquired) and any and all proceeds thereof. Lessee agrees to execute and deliver to Lessor all necessary documents to evidence and perfect such security interest, including, without limitation, UCC financing statements and any amendments thereto.
8.3 "Secured Obligations" means Lessee's obligations to pay all Rent Payments and all other amounts due and payable under all present and future Leases and to perform and observe all covenants, agreements and conditions (direct or indirect, absolute or contingent, due or to become due, or existing or hereafter arising) of Lessee under all present and future Leases.

9. PERSONAL PROPERTY. All Equipment is and will remain personal property and will not be deemed to be affixed or attached to real estate or any building thereon.

10. MAINTENANCE AND OPERATION. Lessee agrees it shall, at its sole expense: (a) repair and maintain all Equipment in good condition and working order and supply and install all replacement parts or other devices when required to so maintain the Equipment or when required by applicable law or regulation, which parts or devices shall automatically become part of the Equipment; and (b) use and operate all Equipment in a careful manner in the normal course of its operations and only for the purposes for which it was designed in accordance with the manufacturer's warranty requirements, and comply with all laws and regulations relating to the Equipment. If any Equipment is customarily covered by a maintenance agreement, Lessee will furnish Lessor with a maintenance agreement by a party reasonably satisfactory to Lessor. No maintenance or other service for any Equipment will be provided by Lessor. Lessee will not make any alterations, additions or improvements ("Improvements") to any Equipment without Lessor's prior written consent unless the Improvements may be readily removed without damage to the operation, value or utility of such Equipment, but any such Improvements not removed prior to the termination of the applicable Lease shall automatically become part of the Equipment.

11. LOCATION; INSPECTION. Equipment will not be removed from, or if Equipment is rolling stock its permanent base will not be changed from, the Location without Lessor's prior written consent which will not be unreasonably withheld. Upon reasonable notice to Lessee, Lessor may enter the Location or elsewhere during normal business hours to inspect the Equipment.

12. LIENS, SUBLEASES AND TAXES.

12.1 Lessee shall keep all Equipment free and clear of all Liens except those Liens created under its Lease. Lessee shall not sublet or lend any Equipment or permit it to be used by anyone other than Lessee or Lessee's employees.

12.2 Lessee shall pay when due all Taxes which may now or hereafter be imposed upon any Equipment or its ownership, leasing, rental, sale, purchase, possession or use, upon any Lease or upon any Rent Payments or any other payments due under any Lease. If Lessee fails to pay such Taxes when due, Lessor shall have the right, but not the obligation, to pay such Taxes. If Lessor pays any such Taxes, then Lessee shall, upon demand, immediately reimburse Lessor therefor. "Taxes" means present and future taxes, levies, duties, assessments or other governmental charges that are not based on the net income of Lessor, whether they are assessed to or payable by Lessee or Lessor, including, without limitation (a) sales, use, excise, licensing, registration, titling, gross receipts, stamp and personal property taxes, and (b) interest, penalties or fines on any of the foregoing.

13. RISK OF LOSS.

13.1 Lessee bears the entire risk of loss, theft, damage or destruction of any Equipment in whole or in part from any reason whatsoever ("Casualty Loss"). No Casualty Loss to any Equipment shall relieve Lessee from the obligation to make any Rent Payments or to perform any other obligation under any Lease. Proceeds of any insurance recovery will be applied to Lessee's obligations under this Section 13.

13.2 If a Casualty Loss occurs to any Equipment, Lessee shall immediately notify Lessor of the same and Lessee shall, unless otherwise directed by Lessor, immediately repair the same.

13.3 If Lessor determines that any item of Equipment has suffered a Casualty Loss beyond repair ("Lost Equipment"), then Lessee shall either: (a) immediately replace the Lost Equipment with similar equipment in good repair, condition and working order free and clear of any Liens (except Lessor's Liens), in which event such replacement equipment shall automatically be Equipment under the applicable Lease, and deliver to Lessor true and complete copies of the invoice or bill of sale covering the replacement equipment; or (b) on earlier of 60 days after the Casualty Loss or the next scheduled Rent Payment date, pay Lessor (i) all amounts owed by Lessee under the applicable Lease, including the Rent Payments due on or accrued through such date plus (ii) an amount equal to the Termination Value as of the Rent Payment date (or if the Casualty Loss payment is due between Rent Payment dates, then as of the Rent Payment date preceding the date that the Casualty Loss payment is due) set forth in the Payment Schedule to the applicable Lease. If Lessee is making such payment with respect to less than all of the Equipment under a Lease, then Lessor will provide Lessee with the pro rata amount of the Rent Payment and Termination Value to be paid by Lessee with respect to the Lost Equipment and a revised Payment Schedule.

13.4 To the extent not prohibited by State law, Lessee shall bear the risk of loss for, shall pay directly, and shall defend against any and all claims, liabilities, proceedings, actions, expenses (including reasonable attorney's fees), damages or losses arising under or related to any Equipment, including, but not limited to, the possession, ownership, lease, use or operation thereof. These
obligations of Lessee shall survive any expiration or termination of any Lease. Lessee shall not bear the risk of loss of, nor pay for, any claims, liabilities, proceedings, actions, expenses (including attorney's fees), damages or losses which arise directly from events occurring after any Equipment has been returned by Lessee to Lessor in accordance with the terms of the applicable Lease or which arise directly from the gross negligence or willful misconduct of Lessor.

14. INSURANCE.

14.1 (a) Lessee at its sole expense shall at all times keep all Equipment insured against all Casualty Losses for an amount not less than the Termination Value of the Equipment. Proceeds of any such insurance covering damage or loss of any Equipment shall be payable to Lessor as loss payee. (b) Lessee at its sole expense shall at all times carry public liability and third party property damage insurance in amounts reasonably satisfactory to Lessor protecting Lessee and Lessor from liabilities for injuries to persons and damage to property of others relating in any way to any Equipment. Proceeds of any such public liability or property insurance shall be payable first to Lessor as additional insured to the extent of its liability, and then to Lessee.

14.2 All insurers shall be reasonably satisfactory to Lessor. Lessee shall promptly deliver to Lessor satisfactory evidence of required insurance coverage and all renewals and replacements thereof. Each insurance policy will require that the insurer give Lessor at least 30 days prior written notice of any cancellation of such policy and will require that Lessor's interests remain insured regardless of any act, error, misrepresentation, omission or neglect of Lessee. The insurance maintained by Lessee shall be primary without any right of contribution from insurance which may be maintained by Lessor.

15. PREPAYMENT OPTION. Upon thirty (30) days prior written notice by Lessee to Lessor, and so long as there is no Event of Default then existing, Lessee shall have the option to prepayment Lessee's obligations under a Lease on any Rent Payment due date by paying to Lessor all Rent Payments then due (including accrued interest, if any) for such Lease plus the Termination Value amount set forth on the Payment Schedule to such Lease for such date. Upon satisfaction by Lessee of such prepayment conditions, Lessor shall release its Lien on such Equipment and Lessee shall retain its title to such Equipment "AS-IS, WHERE-IS", without representation or warranty by Lessor, express or implied, except for a representation that such Equipment is free and clear of any Liens created by Lessor.

16. LESSEE'S REPRESENTATIONS AND WARRANTIES. With respect to each Lease and its Equipment, Lessee hereby represents and warrants to Lessor that: (a) Lessee has full power, authority and legal right to execute and deliver the Lease and to perform its obligations under the Lease, and all such actions have been duly authorized by appropriate findings and actions of Lessee's governing body; (b) the Lease has been duly executed and delivered by Lessee and constitutes a legal, valid and binding obligation of Lessee, enforceable in accordance with its terms; (c) the Lease is authorized under, and the authorization, execution and delivery of the Lease complies with, all applicable federal, state and local laws and regulations (including, but not limited to, all open meeting, public bidding and property acquisition laws) and all applicable judgments and court orders; (d) the execution, delivery and performance by Lessee of its obligations under the Lease will not result in a breach or violation of, nor constitute a default under, any agreement, lease or other instrument to which Lessee is a party or by which Lessee’s properties may be bound or affected; (e) there is no pending, or to the best of Lessee’s knowledge threatened, litigation of any nature which may have a material adverse effect on Lessee's ability to perform its obligations under the Lease; and (f) Lessee is a state, or a political subdivision thereof, as referred to in Section 103 of the Code, and Lessee's obligation under the Lease constitutes an enforceable obligation issued on behalf of a state or a political subdivision thereof.

17. TAX COVENANTS. Lessee hereby covenants and agrees that: (a) Lessee shall comply with all of the requirements of Section 149(a) and Section 149(e) of the Code, as the same may be amended from time to time, and such compliance shall include, but not be limited to, executing and filing Internal Revenue Form 8038G or 8038GC, as the case may be, and any other information statements reasonably requested by Lessor; (b) Lessee shall not do (or cause to be done) any act which will cause, or by omission of any act, and any other information statements reasonably requested by Lessor; (b) Lessee shall not do (or cause to be done) any act which will cause, or by omission of any act allow, any Lease to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or any Lease to be a "private activity bond" within the meaning of Section 141(a) of the Code; and (c) Lessee shall not do (or cause to be done) any act which will cause, or by omission of any act allow, the interest portion of any Rent Payments to be or become includable in gross income for Federal income taxation purposes under the Code.

18. ASSIGNMENT.

18.1 Lessee shall not assign, transfer, pledge, hypothecate, nor grant any Lien on, nor otherwise dispose of, any Lease or any Equipment or any interest in any Lease or Equipment.

18.2 Lessor may assign its rights, title and interest in and to any Lease or any Equipment, and/or may grant or assign a security interest in any Lease and its Equipment, in whole or in part, to any party at any time. Any such assignee or lienholder (an "Assignee") shall have all of the rights of Lessor under the applicable Lease. LESSEE AGREES NOT TO ASSERT AGAINST ANY ASSIGNEE ANY CLAIMS, ABATEMENTS, SETOFFS, COUNTERCLAIMS, RECOUPMENT OR ANY OTHER SIMILAR DEFENSES WHICH LESSEE MAY HAVE AGAINST LESSOR. Unless otherwise agreed by Lessee in writing, any
such assignment transaction shall not release Lessor from any of Lessor's obligations under the applicable Lease. An assignment or reassignment of any of Lessor's right, title or interest in a Lease or its Equipment shall be enforceable against Lessee only after Lessee receives a written notice of assignment which discloses the name and address of each such Assignee; provided, that such notice from Lessor to Lessee of any assignment shall not be so required if Lessor assigns a Lease to JPMORGAN CHASE & CO. any of its direct or indirect subsidiaries. Lessee shall keep a complete and accurate record of all such assignments in the form necessary to comply with Section 149(a) of the Code and for such purpose, Lessee hereby appoints Lessor (or Lessor's designee) as the book entry and registration agent to keep a complete and accurate record of any and all assignments of any Lease. Lessee agrees to acknowledge in writing any such assignments if so requested.

18.3 Each Assignee of a Lease hereby agrees that: (a) the term Secured Obligations as used in Section 8.3 hereof is hereby amended to include and apply to all obligations of Lessee under the Assigned Leases and to exclude the obligations of Lessee under any Non-Assigned Leases; (b) said Assignee shall have no Lien on, nor any interest in, any Non-Assigned Lease or any Equipment covered by any Non-Assigned Lease; and (c) Assignee shall exercise its rights, benefits and remedies as the assignee of Lessor (including, without limitation, the remedies under Section 20 of the Master Lease) solely with respect to the Assigned Leases. "Assigned Leases" means only those Leases which have been assigned to a single Assignee pursuant to a written agreement; and "Non-Assigned Leases" means all Leases excluding the Assigned Leases.

18.4 Subject to the foregoing, each Lease inures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the parties hereto.

19. EVENTS OF DEFAULT. For each Lease, "Event of Default" means the occurrence of any one or more of the following events as they may relate to such Lease: (a) Lessee fails to make any Rent Payment (or any other payment) as it becomes due in accordance with the terms of the Lease, and any such failure continues for ten (10) days after the due date thereof; (b) Lessee fails to perform or observe any of its obligations under Sections 12.1, 14 or 18.1 hereof; (c) Lessee fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Lease and such failure is not cured within thirty (30) days after receipt of written notice thereof by Lessor; (d) any statement, representation or warranty made by Lessee in the Lease or in any writing delivered by Lessee pursuant thereto or in connection therewith proves at any time to have been false, misleading or erroneous in any material respect as of the time when made; (e) Lessee applies for or consents to the appointment of a receiver, trustee, conservator or liquidator of Lessee or of all or a substantial part of its assets, or a petition for relief is filed by Lessee under any federal or state bankruptcy, insolvency or similar law, or a petition in a proceeding under any federal or state bankruptcy, insolvency or similar law is filed against Lessee and is not dismissed within sixty (60) days thereafter; or (f) Lessee shall be in default under any other Lease or under any other financing agreement executed at any time with Lessor.

20. REMEDIES. If any Event of Default occurs, then Lessor may, at its option, exercise any one or more of the following remedies:

(a) Lessor may require Lessee to pay (and Lessee agrees that it shall pay) all amounts then currently due under all Leases and remaining Rent Payments due under all Leases during the fiscal year in effect when the Event of Default occurs together with interest on such amounts at the rate of twelve percent (12%) per annum (but not to exceed the highest rate permitted by applicable law) from the date of Lessor's demand for such payment;

(b) Lessor may require Lessee to promptly return all Equipment under all or any of the Leases to Lessor in the manner set forth in Section 21 (and Lessee agrees that it shall so return the Equipment), or Lessor may, at its option, enter upon the premises where any Equipment is located and repossess any Equipment without demand or notice, without any court order or other process of law and without liability for any damage occasioned by such repossession;

(c) Lessor may sell, lease or otherwise dispose of any Equipment under all or any of the Leases, in whole or in part, in one or more public or private transactions, and if Lessor so disposes of any Equipment, then Lessor shall retain the entire proceeds of such disposition free of any claims of Lessee, provided, that if the net proceeds of the disposition of all the Equipment exceeds the applicable Termination Value of all the Schedules plus the amounts payable by Lessee under clause (a) above of this Section and under clause (f) below of this Section, then such excess amount shall be remitted by Lessor to Lessee;

(d) Lessor may terminate, cancel or rescind any Lease as to any and all Equipment;

(e) Lessor may exercise any other right, remedy or privilege which may be available to Lessor under applicable law or, by appropriate court action at law or in equity, Lessor may enforce any of Lessee's obligations under any Lease; and/or

(f) Lessor may require Lessee to pay (and Lessee agrees that it shall pay) all out-of-pocket costs and expenses incurred by Lessor as a result (directly or indirectly) of the Event of Default and/or of Lessor's actions under this section, including, without limitation, any attorney fees and expenses and any costs related to the repossession, safekeeping, storage, repair, reconditioning or disposition of any Equipment.
None of the above remedies is exclusive, but each is cumulative and in addition to any other remedy available to Lessor. Lessor's exercise of one or more remedies shall not preclude its exercise of any other remedy. No delay or failure on the part of Lessor to exercise any remedy under any Lease shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise of any remedy preclude any other exercise thereof or the exercise of any other remedy.

21. RETURN OF EQUIPMENT. If Lessor is entitled under the provisions of any Lease, including any termination thereof pursuant to Sections 6 or 20 of this Master Lease, to obtain possession of any Equipment or if Lessee is obligated at any time to return any Equipment, then (a) title to the Equipment shall vest in Lessor immediately upon Lessor's notice thereof to Lessee, and (b) Lessee shall, at its sole expense and risk, immediately de-install, disassemble, pack, crate, insure and return the Equipment to Lessor (all in accordance with applicable industry standards) at any location in the continental United States selected by Lessor. Such Equipment shall be in the same condition as when received by Lessee (reasonable wear, tear and depreciation resulting from normal and proper use excepted), shall be in good operating order and maintenance as required by the applicable Lease, shall be free and clear of any Liens (except Lessor's Lien) and shall comply with all applicable laws and regulations. Until Equipment is returned as required above, all terms of the applicable Lease shall remain in full force and effect including, without limitation, obligations to pay Rent Payments and to insure the Equipment. Lessee agrees to execute and deliver to Lessor all documents reasonably requested by Lessor to evidence the transfer of legal and beneficial title to such Equipment to Lessor and to evidence the termination of Lessee's interest in such Equipment.

22. LAW GOVERNING. Each Lease shall be governed by the laws of the state of where Lessee is located (the "State").

23. NOTICES. All notices to be given under any Lease shall be made in writing and either personally delivered or mailed by regular or certified mail or sent by an overnight courier delivery company to the other party at its address set forth herein or at such address as the party may provide in writing from time to time. Any such notices shall be deemed to have been received five (5) days subsequent to mailing.

24. FINANCIAL INFORMATION. As soon as they are available after their completion in each fiscal year of Lessee during any Lease Term, Lessee will deliver to Lessor upon Lessor's request the publicly available annual financial information of Lessee.

25. SECTION HEADINGS. All section headings contained herein or in any Schedule are for convenience of reference only and do not define or limit the scope of any provision of any Lease.

26. EXECUTION IN COUNTERPARTS. Each Schedule to this Master Lease may be executed in several counterparts, each of which shall be deemed an original, but all of which shall be deemed one instrument. If more than one counterpart of each Schedule is executed by Lessee and Lessor, then only one may be marked "Lessor's Original" by Lessor. A security interest in any Schedule may be created through transfer and possession only of: the sole original of said Schedule if there is only one original; or the counterpart marked "Lessor's Original" if there are multiple counterparts of said Schedule.

27. ENTIRE AGREEMENT; WRITTEN AMENDMENTS. Each Lease, together with the exhibits, schedules and addenda attached thereto and made a part hereof and other attachments thereto constitute the entire agreement between the parties with respect to the lease of the Equipment covered thereby, and such Lease shall not be modified, amended, altered, or changed except with the written consent of Lessee and Lessor. Any provision of any Lease found to be prohibited by law shall be ineffective to the extent of such prohibition without invalidating the remainder of the Lease.

**SAMPLE**  
(Lessee)  
By:  
Title:  

**CHASE EQUIPMENT FINANCE, INC.**  
(Lessor)  
By:  
Title: Funding Manager
City’s Proposed Changes to JPMorgan Chase’s Master Lease Purchase Agreement

1) Insurance.

City’s Proposal:

Casualty insurance - The City is self-insured for damage or destruction to vehicles up to $1 million, and excess liability coverage above that.

Liability Insurance - The City is also self-insured for liability insurance up to $1,000,000, and carries excess liability insurance for claims above that amount.

JPMorgan Chase approved, their response:

City is titled owner and JPMorgan Chase holds lien.

2) Title

City’s Proposal:

At the end of the lease (on 09/01/18) there should be a clear provision or process in the document(s) for JP Morgan to release their lien on the equipment.

JPMorgan Chase approved, their response:

Once a transaction is paid off, JPMorgan Chase will sign the release on the original title and return the original title to the City. Then, it is up to the City to process the release at the DMV. JPMorgan Chase will also electronically release our UCC filing.

3) Substitution/Replacement of Vehicles.

City’s Proposal:

The Lease should contain a clear provision permitting substitution of (collateral) vehicles that may include rolling stock that will not consist of Fire engines or Fire Department Rolling Stock. Besides replacing vehicles due to damage or end of a piece of equipment’s life cycle, the City anticipates that there will be future discussions of reorganizing the City’s Fire operations, including outsourcing or regionalizing the services. There should be flexibility in the agreement should these events materialize.

Similarly, there should be a clear process in the Lease to facilitate normal replacement of the collateral equipment when its useful life has been reached. Reference to a division or individual title with appropriate contact information who has authority to approve substitution or replacement would be ideal.

JPMorgan Chase approved, their response:

Substitution/Replacement will be permitted as long it is of equal or greater value, and substitution/replacement will be subject to JPMorgan Chase’s approval.
ESCROW AGREEMENT

by and between the

CITY OF PALO ALTO,

and

U.S. BANK NATIONAL ASSOCIATION
as Escrow Bank

Dated as of August 1, 2011

Relating To the Refunding of the:
City of Palo Alto
$7,750,000 (Original Principal Amount)
Certificates of Participation
(Golf Course Improvements and Refinancing Project)
Series 1998
ESCROW AGREEMENT

This Escrow Agreement is made and entered into as of the 1st day of August, 1998, by and between the CITY OF PALO ALTO, a chartered municipal corporation duly organized and existing under the laws of the State of California (the "City"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, having a corporate trust office in the City of San Francisco, California (the "Escrow Bank");

WITNESSETH:

WHEREAS, the City has heretofore leased certain real property, consisting of the Palo Alto municipal golf course, including certain improvements financed thereon, by a lease transaction between the City and the Palo Alto Public Improvement Corporation (the "Corporation") in 1998, pursuant to that certain property lease, dated as of August 1, 1998, by and between the City, as lessor, and the Corporation, as lessee (the "1998 Property Lease"), and a lease agreement, dated as of August 1, 1998, by and between the Corporation, as lessor, and the City, as lessee (the "1998 Lease"); and

WHEREAS, the City has determined that it is in the interests of the City at this time to provide for the refinancing of the 1998 Lease and the Certificates of Participation executed and delivered in connection therewith in the original principal amount of $7,750,000 (the "1998 Certificates"), by entering into a Master Lease-Purchase Agreement, dated as of August 1, 2011, between the City and the Chase Equipment Finance, Inc. (the "Lease Agreement"); and

WHEREAS, the 1998 Certificates were executed and delivered pursuant to a Trust Agreement, dated as of August 1, 1998, among the City, the Escrow Bank, as trustee, and the Corporation (the "1998 Trust Agreement"); and

WHEREAS, the 1998 Property Lease and the 1998 Lease have been duly terminated pursuant to a Termination Agreement, dated as of August 1, 2011, between the City and the Corporation;

WHEREAS, the City will cause to be deposited with the Escrow Bank funds for the refinancing of the 1998 Lease and the 1998 Certificates;

WHEREAS, the City proposes to make a deposit of moneys from the proceeds of the Lease Agreement, and to appoint the Escrow Bank as its agent for the purpose of applying said deposit to the prepayment of the 1998 Certificates in accordance with the instructions provided by this Escrow Agreement; and
WHEREAS, the Escrow Bank has full powers to act with respect to the irrevocable escrow created herein and to perform the duties and obligations to be undertaken pursuant to this Escrow Agreement:

NOW, THEREFORE, in consideration of the above premises and of the mutual promises and covenants herein contained, the parties hereto DO HEREBY AGREE as follows:

Section 1. Appointment of Escrow Bank. The City hereby appoints the Escrow Bank as escrow holder for all purposes of this Escrow Agreement, and the Escrow Bank hereby accepts such appointment.

Section 2. Establishment of Escrow Fund. There is hereby created by the City with, and to be held by, the Escrow Bank, as security for the payment of the 1998 Certificates, an irrevocable escrow to be held in escrow by the Escrow Bank on behalf of the City and the Assignee and for the benefit of the owners of the 1998 Certificates, said escrow to be designated the "City of Palo Alto 1998 Refunding Escrow Fund" (the "Escrow Fund"). All moneys in the Escrow Fund are hereby irrevocably transferred to the Escrow Bank, as security for payment of the 1998 Certificates, to be held by the Escrow Bank in escrow for the benefit of the owners of the 1998 Certificates. If at any time the Escrow Bank shall receive actual knowledge that the moneys in the Escrow Fund will not be sufficient to make any payment required by Section 5 hereof, the Escrow Bank shall notify the City of such fact, and the City shall immediately cure such deficiency.

Section 3. Deposit into Escrow Fund. Concurrently with the delivery of the Lease Agreement, the City and the Assignee shall cause: (i) $___________ of the proceeds of the Lease Agreement, in immediately available funds, to be transferred to the Escrow Bank for deposit in the Escrow Fund, and (ii) $__________ to be transferred to the Escrow Fund from the Reserve Fund created under the 1998 Trust Agreement, for a total deposit into the Escrow Fund of $____________. Any moneys remaining in the funds and accounts established under the 1998 Trust Agreement, including any investment earnings received after the Closing Date, will be transferred to the City, and such funds and accounts will be closed.

Section 4. Investment of Deposit in Escrow Fund. The Escrow Bank shall hold the Escrow Fund uninvested.

Section 5. Instructions as to Application of Deposit. The City hereby instructs the Escrow Bank as its agent to apply the moneys deposited in the Escrow Fund pursuant to Section 3 hereof to pay the principal of and accrued interest with respect to the 1998 Certificates on August 12, 2011 (the "Redemption Date"), and to pay the redemption price of all then outstanding 1998 Certificates on the Redemption Date, at a redemption price equal to the principal amount thereof, plus accrued interest to the Redemption Date ($____________), as shown on Exhibit A.

Section 6. Costs of Issuance Fund. The Escrow Bank shall establish a special fund designated as the "Costs of Issuance Fund"; shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as provided herein. There shall be deposited in the Costs of Issuance Fund the proceeds of the Assignment, in addition to the deposit to the Escrow Fund, an amount equal to $____________. The moneys in the Costs
of Issuance Fund shall be disbursed to pay the costs of issuance incurred by the City in connection with the refunding of the 1998 Certificates from time to time upon the receipt of written requests of the City setting forth the amounts to be disbursed for payment or reimbursement of costs of issuance and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for costs of issuance properly chargeable to the Costs of Issuance Fund. Any amounts remaining in the Costs of Issuance Fund on __________shall be withdrawn therefrom by the Escrow Bank and transferred to the City.

Section 7. Remaining Moneys. The Escrow Bank shall hold uninvested money, if any, remaining from time to time in the Escrow Fund until needed for payment of the debt service on the 1998 Certificates in accordance with Section 5 hereof.

Section 8. Notice of Redemption. A Notice of redemption of the 1998 Certificates has been properly sent to the holders of the 1998 Certificates in conformity with the provisions of the 1998 Trust Agreement.

Section 9. Application of Certain Terms of the 1998 Trust Agreement. All of the terms of the 1998 Trust Agreement regarding the making of payments of principal, premium, if any, and interest on the 1998 Certificates are incorporated in this Escrow Agreement as if set forth in full herein. Provisions of the 1998 Trust Agreement relating to the resignation and removal of a trustee shall be the procedure to be followed with respect to any resignation or removal of the Escrow Bank hereunder.

Section 10. Compensation to Escrow Bank. The Escrow Bank hereby acknowledges that it has received on the date hereof partial compensation for its duties under this Escrow Agreement representing its first year administration fees, except that the City shall indemnify and hold harmless the Escrow Bank for out-of-pocket costs such as mailing costs, redemption expenses, legal fees and other costs and expenses relating hereto, but under no circumstances shall amounts deposited in the Escrow Fund be deemed to be available for said purposes. The City and the Escrow Bank hereby agree that the Escrow Bank shall be paid its subsequent annual administration fees, as billed, plus appropriate out-of-pocket expenses.

Section 11. Liabilities and Obligations of Escrow Bank. The Escrow Bank shall have no obligation to make any payment or disbursement of any type or incur any financial liability in the performance of its duties under this Escrow Agreement unless the City shall have deposited sufficient funds with the Escrow Bank. The Escrow Bank may rely and shall be protected in acting upon the written instructions of the City or its agents relating to any matter or action as Escrow Bank under this Escrow Agreement.

The Escrow Bank undertakes such duties as specifically set forth herein and no implied duties or obligations shall be read into this Escrow Agreement against the Escrow Bank.

The City hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and hold harmless the Escrow Bank and its respective successors, assigns, agents and servants from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including legal fees and disbursements) of whatsoever kind and
nature which may be imposed on, incurred by, or asserted against, at any time, the Escrow Bank (whether or not also indemnified against by any other person under any other agreement or instrument) and in any way relating to or arising out of the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the retention of the moneys therein and any payment, transfer or other application of moneys or securities by the Escrow Bank in accordance with the provisions of this Escrow Agreement, or as may arise by reason of any act, omission or error of the Escrow Bank made in good faith in the conduct of its duties; provided, however, that the City shall not be required to indemnify the Escrow Bank against its own negligence or misconduct. The indemnities contained in this Section 11 shall survive the termination of this Escrow Agreement.

The Escrow Bank and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or any securities deposited therein, the purchase of the securities to be purchase pursuant hereto, the retention of such securities or the proceeds thereof, the sufficiency of the securities or any uninvested moneys held hereunder to accomplish the defeasance of the 1998 Certificates, or any payment, transfer or other application of moneys or securities by the Escrow Bank in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error or the Escrow Bank made in good faith in the conduct of its duties. The recitals of fact contained in the "whereas" clauses herein shall be taken as the statement of the City and the Escrow Bank assumes no responsibility for the correctness thereof. The Escrow Bank make no representations as to the sufficiency of the securities to be purchased pursuant hereto and any uninvested moneys to accomplish the redemption of the 1998 Certificates pursuant to the 1998 Trust Agreement or to the validity of this Agreement as the City and, except as otherwise provided herein, the Escrow Bank shall incur no liability in respect thereof. The Escrow Bank shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Bank shall be determined by the express provisions of this Agreement. The Escrow Bank may consult with counsel, who may or may not be counsel to the City, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of counsel) may be deemed to be conclusively established by a written certification of the City.

Section 12. Notices. All written notices to be given under this Escrow Agreement shall be given by mail to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time.

If to the City: City Clerk
City of Palo Alto
P. O. Box 10250
Palo Alto, CA  94303
Section 13. **California Law.** This Escrow Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 14. **Severability.** Any provision of this Escrow Agreement found to be prohibited by law shall be ineffective only to the extent of such prohibition, and shall not invalidate the remainder of this Escrow Agreement.

Section 15. **Execution in Counterpart.** This Escrow Agreement may be executed in counterparts and each of said counterparts shall be deemed an original for all purposes of this Escrow Agreement. All of such counterparts taken together shall be deemed to be one and the same instrument.

Section 16. **Merger or Consolidation of Escrow Bank.** Any company into which the Escrow Bank may be merged or converted or with which may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Bank may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible to act as Trustee under the 1998 Trust Agreement, shall be the successor hereunder to the Escrow Bank without the execution or filing of any paper or any further act.

* * * * *
IN WITNESS WHEREOF, the Escrow Bank, the Assignee and the City have each caused this Escrow Agreement to be executed by their duly authorized officers all as of the date first above written.

CITY OF PALO ALTO

By: _________________________________
   Director of Administrative Services

ATTEST:

______________________________
   City Clerk

U.S. BANK NATIONAL ASSOCIATION, as Escrow Bank

By: _________________________________
   Authorized Officer

ATTEST:

______________________________
   Secretary
EXHIBIT A

PAYMENT AND REDEMPTION SCHEDULE OF
1998 Certificates

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<th>Payment Date</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Payment</th>
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<tr>
<td>August 12, 2011</td>
<td>$3,690,000</td>
<td>$________</td>
<td>$________</td>
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Notice of Conditional Prepayment
City of Palo Alto
Certificates of Participation
(Golf Course Improvements and Refinancing Project)
Series 1998

<table>
<thead>
<tr>
<th>Amount</th>
<th>Maturity Date</th>
<th>Interest Rate</th>
<th>*CUSIP #</th>
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<tr>
<td>$405,000</td>
<td>9/1/2012</td>
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</tr>
<tr>
<td>425,000</td>
<td>9/1/2013</td>
<td>4.875</td>
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</tr>
<tr>
<td>445,000</td>
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<tr>
<td>520,000</td>
<td>9/1/2017</td>
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</tr>
<tr>
<td>545,000</td>
<td>9/1/2018</td>
<td>5.0</td>
<td></td>
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</table>

NOTICE IS HEREBY GIVEN, that the City of Palo Alto has conditionally called for Prepayment on August 12, 2011 (the “Prepayment Date”) all of its Certificates of Participation (Golf Course Improvement and Refinancing Project) Series 1998 (the “Certificates”) in the principal amount of $3,690,000, together with the accrued interest to the Prepayment Date (the “Prepayment Price”). The Certificates are being conditionally called for Prepayment on the Prepayment Date subject to the provisions of the succeeding paragraph of this notice, and pursuant to the provisions of the governing documents of the Certificates.

The Conditional Notice of Prepayment, and the payment of the Prepayment Price of the Certificates on the Prepayment Date, is subject to the receipt of funds in an amount sufficient to pay the Prepayment Price of the Certificates on or before the Prepayment Date resulting from the execution and delivery of the City of Palo Alto Master Lease-Purchase Agreement, which Lease Agreement is expected to be delivered on or about August 2, 2011.

In the event such funds are not received by the Prepayment Date, this notice shall be null and void and of no force and effect. The Certificates delivered for Prepayment shall be returned to the respective owners thereof, and said Certificates shall remain outstanding as though this notice of conditional Prepayment had not been given. Notice of a failure to receive funds, and cancellation of this Prepayment, shall be given by the Trustee by first class mail, postage prepaid, to the registered owners of the Certificates.

Pursuant to the governing documents, payment of the Prepayment Price on the Certificates called for Prepayment will be paid without presentation of the Certificates if presentment is not required and upon presentation of the Certificates if presentment is required. If presentment is required, surrender thereof can be made in the following manner:

If by Mail:
U.S. Bank
Corporate Trust Services
P.O. Box 64111
St. Paul, MN 55164-0111

1-800-934-6802
Bondholders presenting their Certificates in person for same day payment must surrender their bond(s) by 1:00 P.M. CST on the Prepayment Date and a check will be available for pick up after 2:00 P.M. CST. Checks not picked up by 4:30 P.M. will be mailed out to the bondholder via first class mail. If payment of the Prepayment Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Prepayment Price.

Interest on the principal amount designated to be redeemed shall cease to accrue on and after the Prepayment Date.
For a list of Prepayment requirements please visit our website at [www.usbank.com/corporatetrust](http://www.usbank.com/corporatetrust) and click on the “Bondholder Information” link

**IMPORTANT NOTICE**

Under the Job and Growth Tax Relief Reconciliation Act of 2003 (the “Act”), 28% will be withheld if tax identification number is not properly certified.

*The Undersigned shall not be held responsible for the selection or use of the CUSIP number, nor is any representation made as to their correctness indicated in the Prepayment Notice. It is included solely for convenience of the Holders.*

**By U. S. Bank National Association**

**As Trustee**

Date: July 12, 2011
<table>
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<tr>
<th>CITY EQUIPMENT NUMBER</th>
<th>YEAR</th>
<th>MANUFACTURER</th>
<th>MODEL</th>
<th>VEHICLE DESCRIPTION</th>
<th>METER READING (MILEAGE)</th>
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<td>N/A (T-6) 75` QUINTUPLE FIRE APPARATUS</td>
<td>75,301</td>
<td>$ 512,919</td>
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<td>8</td>
<td>2005</td>
<td>KME</td>
<td>TBD (BS-1) LIGHT AND POWER UNIT</td>
<td>10,185</td>
<td>$ 402,976</td>
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<td>9</td>
<td>2008</td>
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<td>7400 (E-8) TYPE III WILDLAND PUMPER - 500 GPM</td>
<td>3,938</td>
<td>$ 317,184</td>
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<td>10</td>
<td>1992</td>
<td>PIERCE</td>
<td>DASH (R-2) HEAVY RESCUE</td>
<td>184,671</td>
<td>$ 298,144</td>
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<td>11</td>
<td>1999</td>
<td>SPARTAN/LTI</td>
<td>N/A (MTV) 75` QUINTUPLE FIRE APPARATUS</td>
<td>35,050</td>
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<td>12</td>
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<td>PIERCE</td>
<td>ARROW (E-11) PUMPER - 1500 GPM</td>
<td>115,629</td>
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<td>1991</td>
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<td>ARROW (E-10) PUMPER - 1500 GPM</td>
<td>124,478</td>
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<td>FL50 (MEDIC 3) AMBULANCE - TYPE III</td>
<td>112,158</td>
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<td>E-450 (MEDIC 2) AMBULANCE - TYPE III</td>
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$ 6,558,599