

RESOLUTION NO. 05-22

A RESOLUTION AUTHORIZING ISSUANCE OF IMPROVEMENT BONDS

**CITY OF LOS ALTOS
Raymundo Avenue Curb and Gutter Assessment District**

Adopted July 26, 2005

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A RESOLUTION AUTHORIZING ISSUANCE OF BONDS

RESOLVED by the City Council (the "Council") of the City of Los Altos (the "City"), County of Santa Clara, State of California, that:

WHEREAS, on October 14, 2003, the Council adopted its Resolution of Intention to Make Acquisitions and Improvements (the "Resolution of Intention") relating to the levy of assessments and issuance of bonds pursuant to the Municipal Improvement Act of 1913, Division 12 (commencing with Section 10000) of the Streets and Highways Code of California (the "Act") in and for the City's Raymundo Avenue Curb and Gutter Assessment District (the "Assessment District") and by the Resolution of Intention, the City Council of the City provided that improvement bonds as more particularly described herein (the "Bonds") would be issued thereunder and reference to the Resolution of Intention is hereby expressly made for further particulars; and

WHEREAS, this Council has completed its proceedings under the Resolution of Intention for the levy of assessments, has caused all recordings and filings to be completed in accordance with the requirements in and for the Assessment District and by the adoption of this Resolution intends to provide for the issuance of the Bonds

WHEREAS, this Council now intends to provide for the issuance of the Bonds upon the security of the unpaid assessments, all as hereinafter provided.

ARTICLE I DEFINITIONS; GENERAL

Section 1.01. DEFINITIONS. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Resolution and of any Supplemental Resolution and of the Bonds and of any certificate, opinion, request or other document herein mentioned, have the meanings herein specified. All references in this Resolution to "Articles," "Sections," and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Resolution; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section or subdivision hereof. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

"Act" means the Municipal Improvement Act of 1913, Division 12, commencing with Section 10000, of the Streets and Highways Code of California.

"Agent" means the Finance Director of the City, appointed under Section 2.04 hereof to perform the duties of authentication, registration, transfer and payment of the Bonds and the Agent's assigns or any corporation or association which may at any time be substituted in the Agent's place.

"Assessment or Assessments" means the unpaid amounts of the special assessments levied against all taxable real property within the boundaries of the Assessment District pursuant to the Act and the proceedings of the Council under the Resolution of Intention, for the purpose of paying Debt Service on the Bonds under the Bond Law.

"Assessment District" means that portion of the City designated "Raymundo Avenue Curb and Gutter Assessment District" referenced in proceedings under the Act and Resolution of Intention.

"Auditor" means the auditor/controller or tax collector of the County, or such other official of the County who is responsible for preparing real property tax bills.

"Authorized Officer" means the Mayor, City Manager, Finance Director, Director of Public Works, City Clerk, City Attorney or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referenced in this Resolution as required to be undertaken by an Authorized Officer.

"Available Surplus Funds" means any surplus moneys held by the City at the end of each Fiscal Year in excess of the amounts required to pay lawful municipal obligations incurred in that Fiscal Year.

"Bonds" or "Bonds " means "Limited Obligation Improvement Bonds, City of Los Altos, Raymundo Avenue Curb and Gutter Assessment District" issued under this Resolution and the Act, and at any time Outstanding.

"Bond Denomination" means the amount of \$1,000 or any integral multiple thereof, which is the minimum amount in which the Bonds may be issued, except that one Bond may contain any odd amount.

"Bond Law" means the Improvement Bond Act of 1915, Division 10, commencing with Section 8500, of the California Streets and Highways Code.

"Bond Purchase Agreement" means the private placement agreement or contract whereby the City agrees to sell and the Original Purchaser agrees to buy all or a designated portion of the Bonds.

"Bond Register" means the books maintained by the Agent pursuant to Section 2.07 for the registration and transfer of ownership of the Bonds.

"Bond Year" means the twelve-month period beginning on September 2 in each year and ending on the day prior to September 2 in the following year except that (i) the first Bond Year shall begin on the Closing Date and end on the day prior to the next September 2, and (ii) the last Bond Year may end on a prior redemption date.

"Business Day" means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

"City" means the City of Los Altos a municipal corporation and general law city of the State of California duly organized and validly existing under and by virtue of the Constitution and the laws of the State of California.

"City Attorney" means the duly appointed or retained attorney or firm of attorneys to the City for purposes of rendering advice in the conduct of its general municipal affairs.

"City Manager" means the City Manager or the Assistant City Manager of the City.

"Clerk" means the City Clerk of the City or Deputy City Clerk or designee thereof.

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

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to compensation, fees and expenses of the City and the Agent and their respective counsel, compensation to any financial consultants and underwriters (other than those taken as discount on the Closing Date), legal fees and expenses, filing and recording costs, costs of preparation and reproduction of documents, costs of compliance with the Tax Code relating to rebate to the United States, the costs of supplying continuing disclosure materials under the provisions hereof and costs of printing, mailing and publication of notices with respect to the City and the Project.

"Costs of Issuance Account" means the fund designated "Limited Obligation Improvement Bonds, City of Los Altos, Raymundo Avenue Curb and Gutter Assessment District, Costs of Issuance Account" established under Section 4.02.

"Council" means the City Council as the legislative body of the City.

"County" means the County of Santa Clara, State of California.

"Dated Date" means the Closing Date as the dated date of the Bonds.

"Debt Service" means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (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 such fund is without regard to the source of the investment.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

"Finance Director" means the Director of Finance or the official of the City who is the chief financial officer or designee thereof, including any deputy or assistant thereof.

"Fiscal Year" means the period commencing on July 1 of each year and ending on the next succeeding June 30.

"Improvement Fund" means the fund designated "Limited Obligation Improvement Bonds, City of Los Altos, Raymundo Avenue Curb and Gutter Assessment District, Improvement Fund" established under Section 4.05 hereof.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Mergent/FIS, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attn: Called Bond Dept.; Standard & Poor's Corporation "Called Bond Record," 25 Broadway, 3rd

Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the City may designate in an Officer's Certificate delivered to the Agent.

"Interest Payment Date" means each date upon which interest on the Bonds is payable semiannually on each March 2 and September 2 until maturity and beginning on the date specified in Exhibit A.

"Officer's Certificate" means a written certificate or similar document executed by an Authorized Officer on behalf of the City.

"Original Purchaser" means Westamerica Bank, as the first purchaser of the Bonds from the City under the Bond Purchase Agreement.

"Outstanding," when used as of any particular time with reference to Bonds, means all Bonds theretofore executed, issued and delivered by the City and authenticated by the Agent under this Resolution except:

- (a) Bonds theretofore canceled by the Agent or surrendered to the Agent for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of Section 2.03; and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to this Resolution or any Supplemental Resolution.

"Owner" or "Registered Owner," when used with respect to any Outstanding Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Register.

"Permitted Investments" means the following, but only to the extent that the same are acquired at Fair Market Value:

- (a) Federal Securities;
- (b) securities (other than those identified in paragraphs (a) and (d) of Section 53601 of the Government Code of the State) in which the City may legally invest funds subject to its control, pursuant to Article 1, commencing with Section 53600, of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code of the State, as now or hereafter amended;
- (c) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP);

(d) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Finance Director is authorized to register such investment in the City's name;

(e) investment agreements or guaranteed investment contracts, with or guaranteed by a financial entity whose long-term unsecured obligations are rated "AA" or better by Moody's Investor's Service ("Moody's) and Standard and Poor's Ratings Group ("S&P"), and whose short term debt is rated no lower than the corresponding level of rating category for such debt and such agreement or contract shall provide that the financial entity shall deposit collateral with a third party in accordance with criteria established by Moody's and S&P in the event that the rating of short or long-term debt of the entity is downgraded below then-current requirements of Moody's and S&P for such agreements or contracts;

(f) money market funds which are rated Am or better by S&P;

(g) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(h) interest-bearing demand or time deposits (including certificates of deposit) in federal or state chartered savings and loan associations or in federal or State of California banks (including the Agent or any of its affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated A1 or better by S&P, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

"Placement Agent" means Brandis Tallman LLC, San Francisco, California as the private placement agent for the Bonds.

"Prepayment Account" means the account of that name within the Redemption Fund.

"Principal Amount" means the aggregate principal amount of the bonds which is set forth in Exhibit A.

"Principal Office" means the office of the Agent in Los Altos, California.

"Project" means the acquisitions and improvements funded with all or a portion of the proceeds of the Bonds as generally described in the Resolution of Intention.

"Record Date" means, with respect to the Bonds, the fifteenth (15th) day of the calendar month immediately preceding an Interest Payment Date.

"Redemption Fund" means the fund designated "Limited Obligation Improvement Bonds, City of Los Altos, Raymundo Avenue Curb and Gutter Assessment District, Redemption Fund" established under Section 4.03 hereof.

"Redemption Premium" means three (3) percentum of the principal amount of the Bonds being redeemed and payable upon redemption of the Bonds, except for any Term Bonds,

"Reserve Fund" means the fund designated "Limited Obligation Improvement Bonds, City of Los Altos, Raymundo Avenue Curb and Gutter Assessment District, Reserve Fund" established under Section 4.04 hereof.

"Reserve Requirement" means the maximum amount of the Reserve Fund as specified in Exhibit A.

"Resolution" or **"Resolution of Issuance"** means this Resolution, as originally adopted or as it may from time to time be supplemented, modified or amended by any Supplemental Resolution pursuant to the provisions hereof.

"Resolution of Intention" means, Resolution No. 03-91 adopted by the City Council on October 14, 2003.

"Sinking Fund Payments" means the amounts paid by the City for the Term Bonds under Section 2.02.

"State" means the State of California.

"Supplemental Resolution" means any resolution, agreement, resolution or other instrument hereafter duly adopted or executed by the City in accordance with the provisions of this Resolution.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

"Term Bonds" means any of the Bonds subject to mandatory sinking fund redemption as set forth in Exhibit A.

"Treasurer" means the official who is the elected City treasurer, or the deputy or designee thereof, which official may be the Finance Director.

Section 1.02. UNPAID ASSESSMENTS. The Assessments are as shown on the list of unpaid assessments on file with the Finance Director which list is hereby approved and which is incorporated herein by this reference and made a part hereof. For a particular description of the lots or parcels of land bearing the respective assessment numbers set forth in the list, reference is hereby made to the assessment and to the diagram, and any amendments thereto, recorded in the office of the official of the City who is the Superintendent of Streets of the City after confirmation thereof by the Council.

Section 1.03. EQUAL SECURITY. In consideration of the acceptance of the Bonds by the Owners thereof, this Resolution shall be deemed to be and shall constitute a contract between the City and the Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

ARTICLE II THE BONDS

Section 2.01. BONDS AUTHORIZED. All acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of the Bonds have existed, happened and been performed in due time, form and manner as required by law, and the Council is now authorized pursuant to each and every requirement of law to issue the Bonds in the manner and form as provided in this Resolution. The Bonds, in the Principal Amount, are hereby authorized and will be issued as serial and/or term bonds as set forth in the Bond Purchase Agreement and Exhibit A hereto.

Section 2.02. TERMS OF BONDS.

(A) Denominations. The Bonds shall be issued as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof, except that the first maturity may contain any odd amount. Bonds shall be lettered and numbered in a customary manner as determined by the Agent.

(B) Date of Bonds. The Bonds shall be dated the Dated Date.

(C) CUSIP. "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 any purchaser to accept delivery of and pay for the Bonds. Failure of the City or the Agent to use such CUSIP numbers in any notice to Owners 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. The Bonds shall mature and become payable (or be subject to mandatory redemption in the case of any Term Bonds) on September 2 of each year and shall bear interest at the rates per annum all as set forth in Exhibit A hereto and here by made a part hereof.

(E) Interest. The Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication and registration thereof unless it is authenticated and registered (i) prior to an Interest Payment Date and after the close of business of the Record Date, in which event it shall bear interest from such Interest Payment Date, or (ii) prior to the close of business on the Record Date preceding March 2, 2001, in which event it shall bear interest from the Dated Date.

(F) Method of Payment. Interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Agent at the close of business on the Record Date preceding the Interest Payment Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Agent. All Bonds paid by the Agent pursuant this Section

shall be canceled by the Agent. The Agent shall destroy the canceled Bonds and, upon request of the City, issue a certificate of destruction of such Bonds to the City.

Section 2.03. REDEMPTION.

(A) General.

(i) Prepayment and Optional Redemption. Whenever, as of an Interest Payment Date, there are sufficient funds in the Prepayment Account of the Redemption Fund from the proceeds of prepayments of Assessments or from any other source of funds, Bonds shall be called for redemption. Each Bond, or any portion of the principal thereof in the Bond Denomination or any integral multiple thereof, may be redeemed and paid in advance of maturity on any Interest Payment Date in any year by giving notice as hereafter provided and by paying the principal amount thereof, plus interest to the date of redemption, unless sooner surrendered, in which event said interest will be paid to the date of payment, together with the Redemption Premium.

The provisions of Part 11.1 of the Bond Law are applicable to the advance payment of Assessments and to the calling of the Bonds. The Agent shall select Bonds for redemption in such a way that the ratio of Outstanding Bonds to issued Bonds shall be approximately the same in each annual series insofar as possible (i.e. on a pro-rata basis among maturities of the Bonds). Within each annual maturity, the Agent shall select Bonds for retirement by lot.

(ii) Mandatory Sinking Fund Redemption. As may be provided in Exhibit A hereto, the Term Bonds specified in Exhibit A shall be subject to mandatory redemption in part by lot, on September 2 in each year as specified in Exhibit A, from Sinking Fund Payments made by the City from the Redemption Fund pursuant to Section 4.04, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on September 2 in the respective years, all as set forth in Exhibit A; provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed pursuant to subsection (i) above the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$1,000 as determined by the Agent, notice of which determination shall be given by the Agent to the City.

(B) Notice to Agent. In the event it is transmitting moneys for deposit in the Prepayment Account of the Redemption Fund, the City shall give the Agent written notice of the aggregate amount of Bonds expected to be redeemed pursuant to subsection (A) not less than sixty (60) days prior to the applicable redemption date.

(C) Redemption Procedure by Agent. The Agent shall select Bonds for retirement in such a way that the ratio of Outstanding Bonds to issued Bonds shall be approximately the same in each annual series insofar as possible. Within each annual series the Agent shall select Bonds for retirement by lot. The Agent shall cause written notice of any redemption to be given by registered or certified mail or by personal service to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond Register in the Principal Office of the Agent at least 30 days before the applicable Interest Payment Date. The Agent shall also cause notice of redemption to be sent to the Securities Depositories and to one

or more of the Information Services at least one day earlier than the giving of notice to the Owners as aforesaid; provided, however, such mailing to the Securities Depositories and Information Services shall not be a condition precedent to such redemption. Failure to so mail any notice of redemption, or of any person or entity to receive any such notice, or any defect in any notice of redemption, shall not affect the validity of the proceeding for the redemption of such Bonds.

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 CUSIP numbers and Bond numbers of the Bonds to be redeemed by giving the individual CUSIP number and Bond number of each Bond to be redeemed or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Agent for redemption at the said redemption price, and shall state that further interest on such Bonds, or the portion thereof to be redeemed, will not accrue from and after the redemption date.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

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

(D) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so called for redemption shall have been deposited in the Redemption Fund on the date fixed for redemption, such Bonds so called shall cease to be entitled to any benefit under this Resolution 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 by the Agent pursuant to this Section 2.03 shall be canceled by the Agent. The Agent shall destroy the canceled Bonds and, upon request of the City, issue a certificate of destruction of such Bonds to the City.

Section 2.04. DESIGNATION OF AGENT. The Agent, at the Principal Office, is hereby designated as the Agent to perform the actions and duties required under this Resolution for the authentication, transfer, registration, and payment of the Bonds. The Finance Director is hereby authorized and directed to enter into appropriate agreements with the Agent for such purposes.

Section 2.05. FORM OF BONDS. The Bonds, the form of Agent's certificate of authentication, and the form of assignment to appear thereon, shall be substantially in the form set forth in Exhibit B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, as permitted or required. The use of a single, fully-registered bond in lieu of serial bonds is hereby expressly authorized.

Section 2.06. EXECUTION AND AUTHENTICATION OF BONDS. The Bonds shall be executed in the name and on behalf of the City with the manual or facsimile signatures of the Treasurer and attested by the manual or facsimile signature of the Clerk. The Bonds shall then be delivered to the Agent for authentication. In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated or delivered by the Agent or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though the individual who signed the same had continued to be such officer of the City. Also, any Bond may be signed on behalf of the City by any individual who on the actual date of the execution of such Bond shall be the proper officer although on the nominal date of such Bond such individual shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit B, manually executed by the Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution, and such certificate of the Agent shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Resolution. The Agent's certificate of authentication on any Bonds shall be deemed to be executed by it if signed by the Agent or by an authorized officer or signatory of the Agent, but it shall not be necessary that the same officer or signatory sign the certificate of authentication on all of the Bonds issued hereunder.

Section 2.07. TRANSFER OR EXCHANGE OF BONDS. Any Bond may, in accordance with its terms, be transferred upon the Bond Register by the registered Owner, in person or by such Owner's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Agent, duly executed. Whenever any Bond shall be surrendered for transfer, the Agent shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount. Bonds may be exchanged at the Principal Office of the Agent, for Bonds of the same tenor and maturity and of other authorized denominations. No Bonds the notice of redemption of which has been given pursuant to Section 2.03 shall be subject to transfer or exchange pursuant to this Section. Neither the City nor the Agent shall be required to make such exchange or registration or transfer of Bonds on or after the Record Date or after a Bond has been selected for redemption. For any transfer or exchange under this Section, the City and the Agent may require the payment of a reasonable fee to cover the costs and expenses of the City and the Agent.

Section 2.08. BOND REGISTER. The Agent will keep or cause to be kept at the Principal Office a sufficient Bond Register for the registration and transfer of the Bonds, which shall at all times during regular business hours be open to inspection by the City; and, upon presentation for such purpose, the Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Bond Register, Bonds as hereinbefore provided.

Section 2.09. BONDS MUTILATED, LOST, DESTROYED OR STOLEN. If any Bond shall become mutilated, the 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 Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Agent shall be canceled by it and delivered to, or upon the order of, the City. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft

may be submitted to the City and the Agent and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the 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 (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Agent may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Agent). The City and the Agent may require payment of a reasonable fee for each new Bond issued under this Section and of the expenses which may be incurred by the City and the Agent. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the City whether or not the Bond 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 Resolution with all other Bonds secured by this Resolution and any Supplemental Resolution.

ARTICLE III

ISSUANCE OF BONDS

Section 3.01. ISSUANCE AND SALE OF BONDS. At any time after the adoption of this Resolution, the City may issue the Bonds and sell and deliver them to the Original Purchaser pursuant to the Bond Purchase Agreement between the City and Original Purchaser. The Authorized Officers, and each of them, are hereby authorized to negotiate and execute the Bond Purchase Agreement (as hereafter defined) with the Original Purchaser for the sale of the Bonds, subject to such conditions as shall be as hereafter provided.

Section 3.02. 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 or such person's obligation with respect to the Project.

Section 3.03. PLEDGE OF ASSESSMENTS AND FUNDS. The Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent herein provided) of all of the Assessments and all moneys deposited in the Redemption Fund (including the Prepayment Account therein) and the Reserve Fund. The Assessments and all moneys deposited into said funds (except as otherwise provided herein) are hereby dedicated to the payment of the principal of (including Sinking Fund Payments), and interest and any premium on, the Bonds as provided herein and in the Bond Law until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under Section 8.03 hereof.

Section 3.04. LIMITED OBLIGATIONS. All obligations of the City under this Resolution and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Assessments and the funds pledged therefore hereunder. Neither the faith and credit of the City nor of the State of California or any political subdivision thereof is pledged to the payment of the Bonds. The Bonds are "Limited Obligation Improvement Bonds" under section 8769 of the Bond Law and are payable solely from and secured solely by the Assessments and the amounts in the Redemption Fund and the Reserve Fund created hereunder. Notwithstanding any other provision of this Resolution, the City is not obligated to advance Available Surplus Funds from the City treasury to cure any deficiency in the Redemption Fund; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

Section 3.05. NO ACCELERATION. The principal of the Bonds shall not be subject to acceleration hereunder. Nothing in this Section 3.05 shall in any way prohibit the prepayment or redemption of Bonds under Section 2.03 hereof, or the defeasance of the Bonds and discharge of this Resolution under Section 8.03 hereof.

Section 3.06. REFUNDING OF BONDS. The Bonds may be refunded by the City pursuant to Divisions 11 or 11.5 of the California Streets and Highways Code upon the conditions as set forth in appropriate proceedings therefor. This Section shall not apply to or in any manner limit advancement of the maturity of any of the Bonds as provided in Parts 8, 9, 11, or 11.1 of the Bond Law, nor shall this Section 3.06 apply to or in any manner limit the redemption and payment of any Bond pursuant to subsequent proceedings providing for the

payment of amounts to eliminate previously imposed fixed lien assessments, including the Assessments.

Section 3.07. AUTHORITIES. The Authorized Officers are hereby separately authorized and directed to execute and deliver the documents and instruments herein specified in substantially the forms on file with the City Clerk, with such additions thereto or changes therein as are approved by the Authorized Officer upon consultation with City's Placement Agent and bond counsel, as are necessary or advisable to permit the timely issuance, sale and delivery of the Bonds, provided, however, that no additions or changes shall: (i) authorize an aggregate principal amount of Bonds in excess of \$274,391; (ii) result in an average interest rate on the Bonds in excess of 4.650% per annum or such greater amount permitted by applicable law at the time of the sale of the Bonds; (iii) or result in a placement fee (discount) in excess of \$5,000; (d) or a maturity of the Bonds in excess of the 15 years from the Bond Date. The approval of such additions or changes shall be conclusively evidenced by the execution and delivery of the documents and instruments herein specified by the Authorized Officer.

Section 3.08. COMPLETION OF RESOLUTION. The Clerk is authorized to complete and to approve changes in any provisions of this Resolution and Exhibit "A" hereto in order to accomplish the delivery of any of the Bonds on schedule; such changes may be accomplished by attachment of a certificate, executed by the Clerk, to this Resolution on file in the office of the Clerk.

Section 3.09. SALE OF BONDS. The form the Bond Purchase Agreement supplied by the Placement Agent and substantially in the form currently on file with the City is hereby approved. The Authorized Officer is hereby authorized and directed to execute the Bond Purchase Agreement for the City, subject to the provisions of Section 3.07 hereof.

Section 3.10. BONDS PREPARED AND DELIVERED. Upon completion of the sale thereof, the Bonds shall be prepared, executed and delivered to the Agent for authentication, all in accordance with the terms of the executed Bond Purchase Agreement. The Agent, the Authorized Officers and other responsible officers of the City are hereby authorized and directed to take such actions as are required under the executed Bond Purchase Agreement and the this Resolution to cause the delivery of the Bonds upon receipt of the purchase price thereof from the Original Purchaser.

Section 3.11. ACTIONS APPROVED. All actions heretofore taken by the officers, employees and agents of the City with respect to the establishment of the Assessment District and the sale and issuance of the Bonds are hereby approved, confirmed and ratified, and the Authorized Officers of the City are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bonds in accordance with this resolution, and any certificate, agreement, and other document described in the documents herein approved. All actions to be taken by a specified Authorized Officer as specified herein, may be taken by the Authorized Officer or any designee, with the same force and effect as if taken by such Authorized Officer.

ARTICLE IV

FUNDS AND ACCOUNTS

Section 4.01. APPLICATION OF PROCEEDS OF SALE OF BONDS. Upon receipt of the proceeds of sale of the Bonds on the Closing Date, the proceeds thereof shall be forthwith set aside, paid over and deposited by the Finance Director, as set forth in the Bond Purchase Agreement, appropriate Officer's Certificate(s) this Article IV and Exhibit A hereto.

Section 4.02. COSTS OF ISSUANCE ACCOUNT.

(A) Establishment of Costs of Issuance Account. The Costs of Issuance Account shall be established as part of the Improvement Fund, held and receive deposits, all as provided in Exhibit A. To the extent held by the Finance Director, moneys in the Costs of Issuance Account shall be held for the benefit of the City and shall be disbursed as provided in subsection (B) of this Section 4.02 for the payment or reimbursement of the Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Account shall be disbursed from time to time to pay Costs of Issuance as set forth in a requisition therefor containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Finance Director concurrently with the delivery of the Bonds. The Finance Director shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer's Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Finance Director on the Closing Date.

(C) Investment. Moneys in the Costs of Issuance Account shall be invested and deposited under Section 6.01 hereof. Pending its closing under Subsection (B) above, Interest earnings and profits resulting from said investment shall be retained by the Finance Director in the Costs of Issuance Account to be used for the purposes of such fund.

(D) Closing of Account. The Finance Director shall maintain the Costs of Issuance Account for a period of 90 days from the Closing Date or until the last known Costs of Issuance have been paid, whichever is earlier, and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Improvement Fund and the Costs of Issuance Account shall be closed.

Section 4.03. REDEMPTION FUND

(A) Establishment of Redemption Fund and Accounts. The Redemption Fund is hereby established as a separate fund to be held by the Finance Director to the credit of which deposits shall be made as required by Sections 4.01, and 4.04(E) and any other amounts required to be deposited therein by this Resolution or the Bond Law. Moneys in the Redemption Fund shall be held by the Finance Director for the benefit of the City and the Owners of the Bonds, shall be disbursed for the payment of the principal of (including Sinking Fund Payments), and interest and any premium on, the Bonds as provided below. Within the Redemption Fund, the Finance Director shall establish and administer the Prepayment Account, into which shall be placed any amounts representing the full or partial prepayments of

Assessments that occur after the issuance of the Bonds. The Prepayment Account shall be administered in accordance with section 8767 of the Bond Law and shall remain open so long as the Redemption Fund remains open.

(B) Disbursements. On or before each Interest Payment Date, the Finance Director shall withdraw from the Redemption Fund and pay to the Owners of the Bonds the principal of (including Sinking Fund Payments), and interest and any premium, then due and payable on the Bonds. Five (5) Business Days prior to each Interest Payment Date, the Finance Director shall determine if the amounts then on deposit in the Redemption Fund are sufficient to pay the Debt Service due on the Bonds on such Interest Payment date. In the event that amounts in the Redemption Fund are insufficient for such purpose, the Finance Director shall withdraw from the Reserve Fund to the extent of any funds therein the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Redemption Fund. Amounts so withdrawn from the Reserve Fund and deposited in the Redemption Fund shall be applied to the payment of the Bonds. If, after the foregoing transfers, there are insufficient funds in the Redemption Fund to make the payments provided for in the first sentence of the first paragraph of this Section 4.03(B), the Finance Director shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds (including Sinking Fund Payments), and then to payment of principal due on the Bonds by reason of Bonds called for redemption under Section 2.03 hereof.

(C) Investment. Moneys in the Redemption Fund and the accounts therein shall be invested and deposited under Section 6.01. Interest earnings and profits resulting from such investment and deposit shall be retained in the Redemption Fund and the accounts therein.

(D) Closing of Fund. The Redemption Fund (and the Prepayment Account therein) shall be closed when all of the principal of and interest on the Bonds has been paid.

Section 4.04. RESERVE FUND.

(A) Establishment of Reserve Fund. The Reserve Fund shall be established, as a separate fund to be held by the Finance Director, to the credit of which deposits shall be made as provided in Section 4.01. The Reserve Fund shall also receive funds as provided in the Bond Law. Moneys in the Reserve Fund shall be held for the benefit of the City and the Bond Owners as a reserve for the payment of principal of (including Sinking Fund Payments), and interest and any premium on, the Bonds. The City shall cause the Reserve Fund to be administered in accordance with Part 16 of the Bond Law; provided that proceeds from redemption or sale of properties with respect to which payment of delinquent Assessments and interest thereon was made from the Reserve Fund, shall be credited to the Reserve Fund.

(B) Use of Fund. Except as otherwise provided in this Section 4.04, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Finance Director solely for the purpose of making transfers to the Redemption Fund in the event of any deficiency at any time in the Redemption Fund of the amount then required for payment of the principal of (including Sinking Fund Payments), and interest and any premium on, the Bonds or, under the provisions of this Section 4.04, for the purpose of redeeming Bonds from the Redemption Fund.

(C) Transfer Due to Deficiency in Redemption Fund. Transfers shall be made from the Reserve Fund to the Redemption Fund in the event of a deficiency in the Redemption Fund, under Section 4.03 (B) hereof.

(D) Prepayment of Assessments. Whenever, after the issuance of the Bonds, an Assessment is prepaid, in whole or in part, as provided in the Bond Law, the Finance Director, shall transfer from the Reserve Fund to the Redemption Fund an amount specified in such direction equal to the product of the ratio of the original amount of the Assessment so paid to the original amount of all Assessments, times the initial Reserve Requirement.

(E) Transfer of Excess of Reserve Requirement. Whenever, on any Interest Payment Date, or on any other date when the amount in the Reserve Fund exceeds the then applicable Reserve Requirement, the Finance Director shall, except as otherwise provided in Section 5.09 hereof for purposes of rebate and as evidenced by an appropriate Officer's Certificate, transfer on or before such Interest Payment Date an amount equal to the excess from the Reserve Fund to the Redemption Fund to be used in accordance with Part 16 of the Bond Law to provide credits upon the installments of the Assessments.

(F) Transfer When Balance Exceeds Outstanding Bonds - Closing of Fund. Whenever the balance in the Reserve Fund is sufficient to retire all the Outstanding Bonds, whether by advance retirement or otherwise, collection of the principal and interest on the Assessments shall be discontinued and the Reserve Fund liquidated by the Finance Director in retirement of the Outstanding Bonds, and the Reserve Fund shall be closed. In the event that the balance in the Reserve Fund at the time of liquidation exceeds the amount required to retire all of the Outstanding Bonds, the excess shall be used in accordance with the Act and the Bond Law.

(G) Investment. Moneys in the Reserve Fund shall be invested and deposited under Section 6.01. Interest earnings and profits resulting from said investment shall be retained in the Reserve Fund subject to the provisions of Section 4.04(E) hereof.

Section 4.05. IMPROVEMENT FUND.

(A) Establishment of Improvement Fund. The Improvement Fund is hereby established as a separate fund to be held by the Finance Director to the credit of which deposits shall be made as required by Section 4.01. Moneys in the Improvement Fund shall be held by the Finance Director for the benefit of the City, and shall be disbursed, except as otherwise provided in subsection (D) of this Section, for the payment or reimbursement of costs of the Project.

(B) Disbursement. Disbursements from the Improvement Fund shall be made by the Finance Director upon receipt of an Officer's Certificate, which shall:

(i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made, the person to which the disbursement is to be paid and state that such disbursement is for a Project cost; and

(ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officers Certificate previously filed requesting disbursement;

(C) Investment. Moneys in the Improvement Fund shall be invested and deposited under Section 6.01 hereof. Interest earnings and profits from such investment and deposit shall be retained in the Improvement Fund to be used for the purposes of such fund.

(D) Closing of Fund. Upon the filing of an Officer's Certificate stating that the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, the Finance Director shall transfer the amount, if any, remaining in the Improvement Fund as directed in the Officer's Certificate which directions shall

be pursuant to the Resolution of Intention and to the applicable provisions of the Act and the Improvement Fund shall be closed.

ARTICLE V

COVENANTS

Section 5.01. COLLECTION OF ASSESSMENTS.

The City shall comply with all requirements of the Act, the Bond Law and this Resolution to assure the timely collection of the Assessments, including, without limitation, the enforcement of delinquent Assessments. To that end, the following shall apply:

(A) Tax Roll Collection. The Assessments as set forth on the list thereof on file with the Finance Director together with the interest thereto, shall be payable in annual series corresponding in number and proportionate amount to the number of installments and principal amounts of the Bonds maturing or becoming subject to mandatory prior redemption under Section 2.03 hereof. An annual proportion of each Assessment shall be payable in each Fiscal Year preceding the date of maturity or mandatory prior redemption date of each of the Bonds issued sufficient to pay the Bonds when due (including any Sinking Fund Payments thereon) and such proportion of each Assessment coming due in any year, together with the annual interest thereon, shall be payable in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interests after delinquency as do the general taxes on real property. All sums received from the collection of the Assessments and of the interest and penalties thereon shall be placed in the Redemption Fund.

(B) Auditor Record. The Finance Director shall, before the final date on which the Auditor will accept the transmission of the Assessments for the parcels within the Assessment District for inclusion on the next tax roll, prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the installments of the Assessments on the next secured tax roll. The Finance Director is hereby authorized to employ consultants to assist in computing the installments of the Assessments hereunder and in reconciling Assessments billed to amounts received as provided in the subsection (C) of this Section 5.01.

(C) Administrative Costs. In addition to any amounts authorized pursuant to section 8682 of the Bond Law to be included with the annual amounts of installments as aforesaid, the City, pursuant to section 8682.1 of the Bond Law may cause to be entered on the assessment roll on which taxes will next become due, opposite each lot or parcel of land within the Assessment District in the manner set forth in said section 8682, each lot's pro rata share of the estimated annual expenses of the City in connection with the administrative duties thereof for the Bonds, including, but not limited to, the costs of registration, authentication, transfer and compliance with the provisions of Article V hereof. Delinquent Assessments shall be subject to foreclosure pursuant to Section 5.02 hereof.

Section 5.02. FORECLOSURE. The City hereby covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced, and thereafter diligently prosecute an action in the superior court to foreclose the lien of any Assessment or installment thereof which has been billed, but has not been paid, pursuant to and as provided in sections 8830 and 8835, inclusive of the Bond Law and the conditions specified in this Section 5.02 The Finance Director shall notify the City Attorney of any such delinquency of which the Finance

Director is aware, and the City Attorney shall commence, or cause to be commenced, such foreclosure proceedings, including collection actions preparatory to the filing of any complaint. The City Attorney is hereby authorized to employ counsel to conduct any such foreclosure proceedings. The foreclosure proceedings shall be commenced within calendar 60 days of the determination made by the Finance Director not later than October 1 of each Fiscal Year that there is a delinquency of an Assessment of \$2,000 or more for a prior Fiscal Year or Years for any single parcel of land in the Assessment District.

Section 5.03. PUNCTUAL PAYMENT; COMPLIANCE WITH DOCUMENTS. The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of this Resolution, and will faithfully observe and perform all of the conditions, covenants and requirements of this Resolution and all Supplemental Resolutions.

Section 5.04. NO PRIORITY FOR ADDITIONAL OBLIGATIONS. The City covenants that no additional bonds or other obligations shall be issued or incurred having any priority over the Bonds in payment of principal or interest out of the Assessments. Nothing in this Resolution shall prohibit the City from issuing bonds or other obligations on a parity with or subordinate to the Bonds and secured by and payable from the Assessments upon such terms as the City may determine.

Section 5.05. 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 Resolution, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Resolution.

Section 5.06. 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 Tax Code or the private loan financing test of section 141(c) of the Tax Code.

Section 5.07. 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 any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

Section 5.08. NO ARBITRAGE. The City shall not take, or permit or suffer to be taken by the Finance Director 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 Tax Code.

Section 5.09. REBATE REQUIREMENT. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax 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. Earnings on the Reserve Fund shall be used for rebate purposes before any application thereof as credits to the Redemption Fund under Section 4.04(E).

Section 5.10. YIELD OF THE BONDS. In determining the yield of the Bonds to comply with Sections 5.08 and 5.09 hereof, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of

the Closing Date, regarding prepayments of Assessments and use of prepayments for redemption of the Bonds, without regard to whether or not prepayments are received or Bonds redeemed.

Section 5.11. AMENDMENT. Without the consent of the Owners of the Bonds, the City may amend this Resolution to add, modify or delete provisions if necessary or desirable to assure compliance with Section 148(f) of the Tax Code, or as otherwise required, to assure the exemption from federal income taxation of interest on the Bonds.

Section 5.12. MAINTENANCE OF TAX-EXEMPTION. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

Section 5.13. SMALL ISSUER EXEMPTION FROM BANK NON-DEDUCTIBILITY. The City hereby designates the Bonds for purposes of paragraph (3) of section 265(b) of the Tax Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including the Bonds, has been or will be issued by the City, including all subordinate entities of the City, during the calendar year 2005.

Section 5.14. SMALL ISSUER EXEMPTION FROM REBATE REQUIREMENTS . In accordance with section 148(f)(4)(C) of the Tax Code, the City covenants that it is a governmental unit with general taxing powers; that the Bonds are not private activity bonds as defined in section 141 of the Tax Code; that ninety-five percent (95%) or more of the Net Proceeds of the Bonds are to be used for local government activities of the City (or a governmental unit the jurisdiction of which is entirely within the jurisdiction of the City), and that the aggregate face amount of the all tax-exempt obligations (other than private activity bonds as defined in section 141 of the Tax Code) issued by the City (including all subordinate entities of the City and all entities which may issue obligations on behalf of the City) during the calendar year 2005 will not exceed \$5,000,000, excluding, however, private activity bonds, as defined in section 141 of the Tax Code and current refunding obligations having a principal amount not in excess of the refunded obligation.

ARTICLE VI

INVESTMENT OF FUNDS

Section 6.01. DEPOSIT AND INVESTMENT OF MONEYS IN FUNDS. Subject in all respects to the provisions of Section 6.02, moneys in any fund or account created or established by this Resolution and held by the Finance Director shall be invested by the Finance Director in Permitted Investments. The following shall apply to such investments:

(A) Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of this Resolution for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts;

(B) The Finance Director may act as principal or agent in the acquisition or disposition of any investment. The Finance Director shall incur no liability for losses arising from any investments made pursuant to this Section;

(C) Investments in any and all funds and accounts may at the discretion of the Finance Director be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Finance Director hereunder, provided that the Finance Director shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Resolution;

(D) The Finance Director shall sell at the highest price reasonably obtainable, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and the Finance Director shall not be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance herewith; and

(E) For any funds held by the Finance Director, the foregoing provisions of this Section 6.01 shall also apply, except that an Officer's Certificate shall not be required. For such funds the Finance Director shall keep records or accounts of all expenditures or disbursements therefrom which records shall be available for inspection during business hours on any Business Day upon prior written request.

Section 6.02. ACQUISITION, DISPOSITION AND VALUATION OF INVESTMENTS.

(A) Except as otherwise provided in subsection (B) of this Section, the City covenants that all investments of amounts deposited in any fund or account under this Resolution, or otherwise containing gross proceeds of the Bonds (under section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Resolution or the Tax Code) at Fair Market Value.

(B) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and (unless valued at least annually)

investments in the Reserve Fund shall be valued at their present value (under section 148 of the Tax Code).

Section 6.03. LIABILITY OF CITY. The City shall not incur any responsibility in respect of the Bonds or this Resolution other than in connection with the duties or obligations explicitly provided herein or in the Bonds. The City shall not be liable to any Owner in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Agent herein or of any of the documents executed by the Agent in connection with the Bonds, or as to the existence of a default thereunder. Under this Resolution, the following shall apply to the City:

(A) In the absence of bad faith, the City, including the Finance Director, 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 City and conforming to the requirements of this Resolution. The City, including the Finance Director, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts;

(B) No provision of this Resolution shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the foreclosure proceedings for delinquent Assessments and the payment of fees and costs of the Agent) in the performance of any of its obligations 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;

(C) The City 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 City may consult with counsel, who may be the City Attorney, 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;

(D) The City shall not be bound to recognize any person as the Owner of a Bond unless duly registered and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed; and

(E) Whenever in the administration of its duties under this Resolution the City 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 willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Agent or other expert retained by the City for the purposes hereof, and such certificate shall be full warrant to the City for any action taken or suffered under the provisions of this Resolution or any Supplemental Resolution upon the faith thereof, but in its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

Section 6.04. EMPLOYMENT OF AGENTS BY CITY. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or

entities employed by it with reasonable care and in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

ARTICLE VII

MODIFICATION OR AMENDMENT

Section 7.01. AMENDMENTS PERMITTED.

(A) With Consent. This Resolution 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 Resolution 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 7.04. 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 Assessments 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, this Resolution, the laws of the State of California), or reduce the percentage of Bonds required for the amendment hereof, or to amend this Section 7.01. Any such amendment may not modify any of the rights or obligations of the Agent without its written consent.

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

(i) to add to the covenants and agreements of the City in this Resolution 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;

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

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

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

Section 7.02. 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 7.03. PROCEDURE FOR AMENDMENT WITH WRITTEN CONSENT OF OWNERS. The City may at any time adopt a Supplemental Resolution amending the provisions

of the Bonds or of this Resolution or any Supplemental Resolution, to the extent that such amendment is permitted by Section 7.01 hereof, to take effect when and as provided in this Section 7.03. With respect to such Supplemental Resolution under this Section 7.03, the following shall apply:

(A) A copy of such Supplemental Resolution, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Finance Director to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Resolution and request shall not affect the validity of the Supplemental Resolution when assented to as in this Section provided;

(B) Such Supplemental Resolution shall not become effective unless there shall be filed with the 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 7.04) 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 8.04. 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 Agent prior to the date when the notice hereinafter in this Section provided for has been mailed; and

(C) After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Resolution, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Resolution, stating in substance that the Supplemental Resolution 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 Resolution or consents thereto). Proof of the mailing of such notice shall be filed with the Agent. A record, consisting of the papers required by this Section 7.03 to be filed with the Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Resolution shall become effective upon the filing with the Agent of the proof of matters therein of such notice, and the Supplemental Resolution 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 7.04. 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 VII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VII.

Section 7.05. EFFECT OF SUPPLEMENTAL RESOLUTION. From and after the time any Supplemental Resolution becomes effective pursuant to this Article VII, this Resolution shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under this Resolution 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

Resolution shall be deemed to be part of the terms and conditions of this Resolution for any and all purposes.

Section 7.06. ENDORSEMENT OR REPLACEMENT OF BONDS ISSUED AFTER AMENDMENT. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon request 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 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 request of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

Section 7.07. AMENDATORY ENDORSEMENT OF BONDS. The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular Bonds held by such Owner, provided that due notation thereof is made on such Bonds.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. BENEFITS OF AGREEMENT LIMITED TO PARTIES. Nothing in this Resolution, expressed or implied, is intended to give to any person other than the City, the Agent and the Owners, any right, remedy or claim under or by reason of this Resolution. Any covenants, stipulations, promises or agreements in this Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Agent.

Section 8.02. SUCCESSOR AND PREDECESSOR. Whenever in this Resolution or any Supplemental Resolution either the City or the 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 Resolution contained by or on behalf of the City shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 8.03. DISCHARGE OF RESOLUTION.

(A) Methods. Subject to the provisions of Section 2.03 hereof, if the City shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways:

(i) by paying or causing to be paid the principal of (including any Sinking Fund Payments) and interest and any premium on all Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing with the Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Redemption Fund (including any account therein) and the Reserve Fund is fully sufficient to pay all Bonds Outstanding, including all principal (including Sinking Fund Payments), interest and any applicable redemption premiums, or;

(iii) by irrevocably depositing with the Agent, in trust, cash and Federal Securities in such amount as the City shall determine, as confirmed by an independent certified public accountant, which will, together with the interest to accrue thereon and moneys then on deposit in the Redemption Fund (including any account therein) and the Reserve Fund be fully sufficient to pay and discharge the indebtedness on all Bonds, including all principal, Sinking Fund Payments, interest and any applicable redemption premiums, at or before their respective maturity dates.

(B) Effect. If such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in this Resolution provided or provision satisfactory to the 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 Assessments and other funds provided for in this Resolution and all other obligations of the City under this Resolution with respect to all Bonds Outstanding shall cease and terminate, except only 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, the obligation of the City to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest

on the Bonds from gross income for federal income tax purposes, and all amounts owing to the Agent pursuant to Section 7.05 hereof; and thereafter Assessments shall not be payable to the Agent. Notice of such election shall be filed with the Agent. Any funds thereafter held by the Agent upon payments of all fees and expenses of the Agent, which are not required for said purpose, shall be paid over to the City to be used by the City as provided in the Act and the Bond Law.

Section 8.04. EXECUTION OF DOCUMENTS AND PROOF OF OWNERSHIP. Any request, declaration or other instrument which this Resolution 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. The ownership of registered bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books. Any consent, request, declaration or other instrument or writing of the then registered 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 Agent in good faith and in accordance therewith.

Section 8.05. 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 8.06. NOTICES AND DEMANDS. Any notice or demand which by any provision of this Resolution is required or permitted to be given or served by the City to or on the 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 Agent with the City) as follows:

(A) City:

Finance Director
City of Los Altos
One North San Antonio Road
Los Altos, CA 94022-3087

(B) Agent:

Finance Director
City of Los Altos
One North San Antonio Road
Los Altos, CA 94022-3087

Section 8.07. PARTIAL INVALIDITY. If any Section, paragraph, sentence, clause or phrase of this Resolution shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Resolution. The City hereby declares that it would have adopted this Resolution 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 Resolution may be held illegal, invalid or unenforceable.

Section 8.08. UNCLAIMED MONEYS. Anything contained herein to the contrary notwithstanding, any moneys held by the Finance Director 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 payments of principal, interest and any premium have become payable, shall be repaid by the Finance Director to the City as its absolute property free from any trust, and the Finance Director 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 8.09. APPLICABLE LAW. This Resolution 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 8.10. CONFLICT WITH BOND LAW. In the event of a conflict between any provision of this Resolution with any provision of the Bond Law, the provision of the Bond Law shall prevail over the conflicting provision of this Resolution.

Section 8.11. CONCLUSIVE EVIDENCE OF REGULARITY; VALIDITY. Bonds issued pursuant to this Resolution shall constitute conclusive evidence of the regularity of all proceedings under the Act and the Bond Law relative to the levy of the Assessments. and the issuance of the Bonds, respectively. The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion and/or acquisition of the Project or any part thereof or the performance by any person or such person's obligation(s) with respect to the Project.

Section 8.12. PAYMENT ON BUSINESS DAY. In any case where the date of the maturity of interest or of principal, including Sinking Fund Payments, (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 Resolution is other than a Business Day, the payment of interest or principal, including Sinking Fund Payments, (and any redemption premium) 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 additional interest shall accrue from such Interest Payment Date until such Business Day.

Section 8.13. REPEAL OF INCONSISTENT RESOLUTIONS. Any resolution of the Council, and any part of such resolution, inconsistent with this Resolution, is hereby repealed to the extent of such inconsistency.

Section 8.14. AUTHORITY OF FINANCE DIRECTOR. All actions mandated by this Resolution to be performed by the Finance Director may be performed by the designee thereof or such other official of the City or independent contractor, consultant or trustee duly authorized by the City to perform such action or actions in furtherance of all or a specific portion of the requirements hereof.

Section 8.15. CERTIFIED COPIES. The Clerk shall cause to be furnished a certified copy of this resolution to the Finance Director, to the Agent, and to the Auditor of the County.

Section 8.16. EFFECTIVE DATE OF THE RESOLUTION. This Resolution shall become effective upon the date of its adoption.

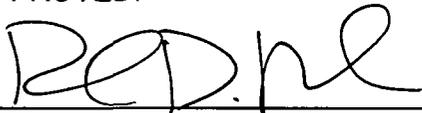
I HEREBY CERTIFY that the forgoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Los Altos at a regular meeting thereof held on the 26th day of July, 2005, by the following roll call vote:

AYES: COLE, MOSS, PACKARD, LEAR, CASAS

NOES: NONE

ABSENT: NONE

APPROVED:



Ron Packard, MAYOR PRO TEM

ATTEST:



Susan Kitchens, CITY CLERK

EXHIBIT A

**CITY OF LOS ALTOS
Raymundo Avenue Curb & Gutter Assessment District
Terms and Conditions of Bonds**

The following terms and conditions shall be part of the within Resolution Authorizing the Issuance of Bonds (the "Resolution of Issuance") as if set forth in the text thereof:

Principal Amount: Under Section 2.01, the Principal Amount shall be \$274,391.

The **Interest Rate** shall be 4.650% per annum.

The **Closing Date** shall be August 3, 2005.

The first **Interest Payment Date** is March 2, 2006.

Principal Maturities and Interest: Under Section 2.02 the Bonds are issued as Term Bonds, maturing on September 2, 2020, in each of the following years with interest at the interest rate of specified above per annum, subject to mandatory sinking fund redemption as follows:

<u>Sinking Fund Redemption Date (September 2)</u>	<u>Principal Amount To be Redeemed</u>
2006	12,391
2007	14,000
2008	14,000
2009	15,000
2010	16,000
2011	16,000
2012	17,000
2013	18,000
2014	19,000
2015	20,000
2016	21,000
2017	21,000
2018	22,000
2019	24,000
2020	25,000

Bond Redemption: Under Section 2.03, the Redemption provisions are as follows:

Optional Redemption:

The Bond or any portion of it in the amount of one thousand dollars (\$1,000), or any integral multiple thereof, may be redeemed and paid in advance of maturity upon the second day of March or September in any year by giving at least 30 days' notice by registered or

certified mail or personal service to the registered owner hereof at the registered owner's address as it appears on the registration books of the Agent and by paying principal and accrued interest together with a premium equal to three per centum of the principal.

Deposits of Funds: Under Section 4.01 and on the Closing Date, the net proceeds of \$269,391.00 will be deposited as follows:

\$20,809.00 to the Costs of Issuance Account;

\$13,719.55 to the Reserve Fund; and

\$ 234,862.45 to the Improvement Fund.

The Reserve Requirement: The Reserve Requirement shall be an amount which shall not exceed the least of (i) 10% of the Principal Amount of the Bonds, (ii) 125% of average annual Debt Service, or (iii) maximum annual Debt Service on the bonds; provided however, that the amount deposited in the Reserve Fund on the Closing Date shall be 5% of the Principal Amount of the Bonds and such amount shall be increased through the retention of interest earnings in the Reserve Fund until the amount of the Reserve Requirement is reached.

**EXHIBIT B
[FORM OF BOND]**

**United States of America
State of California
County of Santa Clara**

**LIMITED OBLIGATION
IMPROVEMENT BOND
CITY OF LOS ALTOS
Raymundo Avenue Curb and Gutter Assessment District**

**United States of America
State of California
County of Santa Clara**

Number A-1

Registered
***\$274,391**

**LIMITED OBLIGATION
IMPROVEMENT BOND
CITY OF LOS ALTOS
Raymundo Avenue Curb and Gutter Assessment District**

INTEREST RATE
4.650%

MATURITY DATE
September 2, 2020

DATED DATE
August 3, 2005

REGISTERED OWNER:

PRINCIPAL AMOUNT: *** TWO HUNDRED SEVENTY FOUR THOUSAND THREE HUNDRED NINETY ONE Dollars***

Under and by virtue of the Improvement Bond Act of 1915, Division 10 (commencing with Section 8500) of the Streets and Highways Code (the "Act"), the City of Los Altos, County of Santa Clara, State of California (the "City"), will, out of the redemption fund for the payment of the bonds issued upon the unpaid portion of assessments made for the acquisition, work and improvements more fully described in proceedings taken pursuant to Resolution of Intention No. 03-91 adopted by the City Council of the City on October 14, 2003, pay to the Registered Owner named above or registered assigns, on the maturity date stated above, the principal amount stated above, in lawful money of the United States of America and in like manner will pay interest from the Interest Payment Date (as hereinafter defined) next preceding the date on which this bond is authenticated, unless this bond is authenticated and registered as of an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this bond is authenticated and registered prior to March 2, 2006, in which event it shall bear interest from the Dated Date above until payment of the principal amount shall have been discharged, at the Interest Rate per annum stated above, payable semiannually on September 2 and March 2 (each an "Interest Payment Date") in each year commencing on March 2, 2006. Both the principal and redemption premiums, if any, shall be payable at the office of the Finance

Director of the City, as Authentication Agent, Registrar, Transfer and Paying Agent (the "Agent"), in Los Altos, California, and interest shall be paid by check, draft or warrant mailed to the registered owner hereof at the registered owner's address as it appears on the records of the Agent, or at such address as may have been filed with the Agent, for that purpose, as of the 15th day of the calendar month immediately preceding each Interest Payment Date.

This bond will continue to bear interest after maturity at the rate above stated; provided it is presented at maturity and payment thereof is refused upon the sole ground that there are not sufficient moneys in the redemption fund with which to pay same. If it is not presented at maturity, interest thereon will run until maturity.

This bond shall not be entitled to any benefit under the Act, the Resolution Authorizing Issuance of Improvement Bonds (the "Resolution of Issuance") adopted by the City Council of the City on July 26, 2005, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Agent.

This bond is issued by the City of Los Altos under the Act, the Resolution of Issuance for the purpose of providing means for paying for the improvements described in the proceedings, and is secured by the moneys in the redemption fund and by the unpaid portion of assessments made for the payment of those improvements, and, including principal and interest, is payable exclusively out of the redemption fund.

This bond is transferable by the registered owner hereof, in person or by the owner's attorney duly authorized in writing, at the office of the Agent, subject to the terms and conditions provided in the Resolution of Issuance, including the payment of certain charges, if any, upon surrender and cancellation of this bond. Upon such transfer, a new registered bond or bonds, of any authorized denomination or denominations, of the same maturity, and for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

This bond shall be registered only in the name of an individual (including joint owners), a corporation, a partnership, or a trust.

Neither the City nor the Agent shall be required to make such exchange or registration of transfer of this bond during the 15 days of the calendar month immediately preceding any Interest Payment Date.

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

Except for sinking fund redemptions show below, this bond or any portion of it in the amount of one thousand dollars (\$1,000), or any integral multiple thereof, may be redeemed and paid in advance of maturity upon the second day of March or September in any year, commencing with March 2, 2006, by giving at least 30 days' notice by registered or certified mail or personal service to the registered owner hereof at the registered owner's address as it appears on the registration books of the Agent and by paying principal and accrued interest together with a redemption premium equal to three percentum of the principal being redeemed.

The bond is issued as a term bond, maturing on September 2, 2020 in each of the following years with interest at the interest rate of specified above per annum, subject to mandatory sinking fund redemption as follows:

Sinking Fund Redemption Date (September 2)	Principal Amount To be Redeemed
2006	12,391
2007	14,000
2008	14,000
2009	15,000
2010	16,000
2011	16,000
2012	17,000
2013	18,000
2014	19,000
2015	20,000
2016	21,000
2017	21,000
2018	22,000
2019	24,000
2020	25,000

This bond is a Limited Obligation Improvement Bond because, under the Resolution of Issuance, the City is not obligated to advance funds from the City treasury to cover any deficiency which may occur in the redemption fund for the bonds; however, the City is not prevented, in its sole discretion, from so advancing funds.

This bond is a qualified tax-exempt obligation designated by the City for the purpose of Section 265(b) of the Internal Revenue Code of 1986.

IN WITNESS WHEREOF, the City of Los Altos has caused this bond to be signed in facsimile by the Finance Director and by its City Clerk, and has caused its corporate seal to be reproduced in facsimile hereon all as of the _____ day of _____, 2005.

CITY OF LOS ALTOS

City Clerk

Finance Director

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the bonds described in the within mentioned Resolution of Issuance.

Dated: August 3, 2005

Finance Director, City of Los Altos, as Agent

By: _____

