



Agenda Item # \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Tell and Members of the City Council

**THROUGH:** Geoff Dolan, City Manager

**FROM:** Bruce Moe, Finance Director  
Robert V. Wadden, Jr., City Attorney  
Russell J. Morreale, Assistant Finance Director  
Henry Mitzner, Controller

**DATE:** March 7, 2007

**SUBJECT:** Consideration of Resolution Approving Documents for Issuance of Pension Obligation Bonds for the Fixed Unfunded Liabilities in the Police and Fire Department Retirement Plans with CalPERS

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### **RECOMMENDATION:**

The Finance Subcommittee and staff recommend that the City Council adopt resolution No. 6084, which authorizes the sale of Pension Obligation Bonds and approves the documents necessary to execute the sale of the bonds.

### **FISCAL IMPLICATION:**

The City's current fixed, unfunded liability for our Police and Fire retirement plans totals \$6,523,177. The City's Financial Advisor, along with City staff, has estimated that we will realize present value savings of approximately \$289,000 by issuing these bonds, net of the issuance costs.

### **BACKGROUND:**

Council reviewed and approved the issuance of Pension Obligation Bond's (POB's) at the December 5, 2006 Council meeting. Since then, the required validation action through Superior Court has been accomplished. With this action completed, Council must now approve the remaining documents in order for the sale of bonds to occur.

### **DISCUSSION:**

The City provides retirement benefits to its employees through the California Public Employees Retirement System (CalPERS). The City's employees are segregated into three plans: Police (3% @ 50); Fire (3%@55); and Miscellaneous (2%@55) which represents all non-sworn employees. In 2005, PERS combined all individual plans with less than 100 employees into several pooled plans with other agencies with like benefits. This resulted in our Police and Fire plans being combined into such pools. Our miscellaneous group exceeds 100 and therefore remains as a stand-alone plan.

At the time PERS created the various pools, any unfunded liabilities of individual agencies were placed into individual side funds, with the individual agency continuing to be responsible for those liabilities. Additionally, a corresponding premium rate was added to the employer rate that amortized that liability over a nine year period ending July 1, 2014 (we are in the second year) at an interest rate of 7.75% annually. We have unfunded side fund liabilities shown below (projected to March 22, 2007 levels which correspond to the timing of our bond issue):

<u>Department</u>	<u>Unfunded Liabilities</u>
Police	\$4,500,860
Fire	<u>\$2,133,319</u>
Total	\$6,634,179

In the past, any unfunded liabilities would fluctuate in value in response to higher or lower than expected investment returns at PERS. For example, as PERS' exceeded the 7.75% assumed rate of return on their investments, the excess earnings would be applied to our unfunded liabilities and would result in a reduction in that liability. Conversely, if returns were less than expected, unfunded liabilities would grow. In such an environment, it did not make financial sense to prepay the unfunded liability since it could potentially be reduced through investment gains. Additionally, if we were to prepay the liability and further gains resulted in assets greater than the liabilities, we would not be able to receive a refund for those excess contributions from PERS. Those excess funds would be retained by PERS and used to adjust our future employer rates. As a result, in the past there has been no incentive to prepay liabilities.

Under the new pooling structure and side fund arrangement, with our prior unfunded liabilities fixed and amortized at a 7.75% annual percentage rate, staff recommends issuing pension obligation bonds at a reduced interest rate to pay off the liability at PERS.

An analysis performed by our Financial Advisor and verified by City staff indicates that under current market assumptions, we can realize present value savings of approximately \$289,000 by issuing pension obligation bonds. These savings are net of the costs of issuance (underwriters, bond and disclosure counsel, and financial advisor) and are achieved through lower interest rates available in the open market (approximately 6%) compared to PERS' rates (7.75%).

By adopting Resolution No. 6084 this evening, the following documents will be approved:

***Official Statement (Attachment "B")***

This document is used to market the bonds and includes demographic, financial and other information about the City. Under federal securities laws, this document must contain all information relating to the City finances generally that would be material to investors, and must not omit any material information. For approval purposes this evening, the statement is preliminary, subject to minor modifications, which may be approved by the City Manager.

The *Continuing Disclosure Agreement* is an attachment to the Official Statement, and outlines the requirement to provide updated information related to the security that the City will agree to

provide to the bond markets. Disclosure is required annually, and on an exception basis for any major material event. This document is drafted by Bond Counsel and executed by the City and the Fiscal Agent.

***Purchase Contract (Attachment “C”)***

This agreement is between the Underwriter (UBS) and the City, whereby UBS agrees to purchase the bonds from the City for marketing purposes. UBS was selected as our underwriting partner through a competitive process prior to the sale of the Metlox bonds in 2003. We have successfully negotiated the Police & Fire Facility issue and numerous underground utility district bond sales, and continue to be pleased with their services.

***Trust Agreement (Attachment “D”)***

This document establishes the City’s relationship with U.S. Bank as trustee of the funds. U.S. Bank will be responsible for receiving bond proceeds, distributing the moneys, handling ongoing principal and interest payments, as well as other expenses associated with the bond issue.

**Standard & Poor’s Rating**

As part of the process of issuing the bonds, the City contacted Standard & Poor’s (S&P) in order to obtain a rating (only one of the three rating agencies was asked to rate this issuance due to the cost). After meeting with City staff and reviewing the City’s financial performance and policies, S&P affirmed the City’s general obligation (GO) AAA rating, and assigned a AA+ rating (one rank below AAA) to the Pension Obligation Bond issue. POB’s and other similar issues do not receive the City’s AAA GO rating because the repayment of the bonds is subject to annual appropriation, and thus are considered slightly more uncertain than debt secured by the City’s taxing authority, such as GO bonds.

We are also pleased to report that, under Standard & Poor’s new rating tool entitled “Financial Management Assessment” (FMA), the City has been issued a ‘strong’ rating, the highest rating possible. An FMA of 'strong' indicates that practices are strong, well embedded, and likely sustainable. Key features of the city's policies that were cited are our formal investment, financial, debt and capital and equipment spending policies. Additionally, the City’s financial planning and oversight, including monthly financial reporting, five-year financial forecasts, and a minimum operating reserve of 20% of expenditures added to our rating. Long-term capital planning, including the five-year capital plan with identified funding sources was also listed.

**CONCLUSION:**

With the validation action completed, staff recommends that the City Council adopt Resolution No. 6084, which approves the documents required to complete the sale of the bonds. Staff will report back to the Council with the final results of the sale once the transaction has been completed, which is expected to occur by the end of the month.

- Attachments: A) Resolution No. 6084  
B) Official Statement (With Continuing Disclosure Agreement)  
C) Purchase Contract  
D) Trust Agreement

RESOLUTION NO. 6084

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MANHATTAN BEACH AUTHORIZING THE REFUNDING OF THE CITY'S PENSION OBLIGATIONS, AUTHORIZING THE ISSUANCE AND SALE OF A SERIES OF CITY OF MANHATTAN BEACH TAXABLE PENSION OBLIGATION BONDS, THE EXECUTION AND DELIVERY OF A TRUST AGREEMENT, A BOND PURCHASE AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT, THE PREPARATION OF A PRELIMINARY OFFICIAL STATEMENT AND THE EXECUTION OF AN OFFICIAL STATEMENT AND OTHER MATTERS RELATING THERETO

WHEREAS, City Council (the "City Council") of the City of Manhattan Beach (the "City") adopted a retirement plan pursuant to the Public Employees' Retirement Law commencing with Section 20000 of the Government Code of the State of California, as amended (the "Retirement Law"); and

WHEREAS, the Retirement Law obligates the City to (1) make annual contributions to the California Public Employees' Retirement System (the "System") to fund pension benefits for its employees, (2) amortize the unfunded accrued actuarial liability with respect to such pension benefits, and (3) appropriate funds for the purposes described in (1) and (2); and

WHEREAS, pursuant to the Retirement Law, contracting agencies with less than 100 active members as of June 30, 2003, including the City, shall participate in a risk pool; and

WHEREAS, the obligation of the City to pay its unfunded accrued actuarial liability to the System (the "Pension Obligations") is evidenced by a contract between the City and the System (as amended, the "PERS Contract"), and a portion of the City's Pension Obligations are included in two separate risk pools (such portion of the City's Pension Obligations being referred to herein as the "PERS Side Fund Pension Obligations"); and

WHEREAS, based on a certificate prepared by the System's Actuary on December 8, 2006, the City's PERS Side Fund Pension Obligations is expected to be \$6,634,179 as of March 22, 2007, the proposed date of issuance of the Pension Obligation Bonds (herein defined); and

WHEREAS, the City desires to issue bonds (the "Pension Obligation Bonds") in an aggregate principal amount not to exceed the PERS Side Fund Pension Obligations plus an additional amount to pay costs of issuance of the Pension Obligation Bonds, for the purpose of refunding the PERS Side Fund Pension Obligations evidenced by the PERS Contract and thereby providing funds to the System in payment of all of the PERS Side Fund Pension Obligations as of the date of issuance of the Pension Obligation Bonds; and

WHEREAS, on December 5, 2006, after public notice, the City Council adopted Resolution No. 6075 authorizing the issuance and sale of the Pension Obligation Bonds, the refunding of the City's Pension Obligations, including the PERS Side Fund Pension Obligations, the execution and delivery of the Trust Agreement and a validation action relating to the issuance of the Pension Obligation Bonds and certain other matters in connection therewith; and

WHEREAS, on December 13, 2006, the City, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California for the County of Los Angeles seeking judicial validation of the transactions relating to the issuance of the Pension Obligation Bonds and certain other matters in connection therewith and on February 7, 2007, the court entered a default judgment to the effect, among other things, that the Pension Obligation Bonds are valid, legal and binding obligations of the City and that the Pension Obligation Bonds are valid and in conformity with all applicable provisions of law.

NOW, THEREFORE, IT IS RESOLVED, DETERMINED AND ORDERED BY THE CITY COUNCIL OF THE CITY OF MANHATTAN BEACH AS FOLLOWS:

SECTION 1. This City Council hereby finds and declares that the foregoing recitals are true and correct and the issuance of the Pension Obligation Bonds to refund the PERS Side Fund Pension Obligations, and the other actions contemplated by this Resolution are in the best interests of the City and are anticipated to result in savings based on current actuarial assumptions.

SECTION 2. This City Council hereby reaffirms the authorization and approval of the issuance of the Pension Obligation Bonds and hereby reaffirms the authorization of and direction to the City Manager to execute the Pension Obligation Bonds, and to cause the Pension Obligation Bonds to be authenticated and delivered in accordance with the Trust Agreement (herein defined). The Pension

Obligation Bonds shall be in substantially the form attached to the Trust Agreement, with such changes therein, deletions therefrom and additions thereto as the City Manager shall approve, such approval to be conclusively evidenced by the execution and delivery of the Pension Obligation Bonds; provided that the Pension Obligation Bonds will be issued as current interest fixed rate bonds and shall in no event exceed the aggregate principal amount of seven million dollars (\$7 million), representing the PERS Side Fund Pension Obligations (as confirmed by the System's Actuary) as of the anticipated date of issuance of the Pension Obligation Bonds, plus an additional amount to pay costs of issuance of the Pension Obligation Bonds, original issue discount, and underwriter's discount on the Pension Obligation Bonds (such underwriter's discount excluding original issue discount not to exceed one and one-half percent (1.5%) of the aggregate principal amount of the Pension Obligation Bonds); the maximum interest rate on the Pension Obligation Bonds shall not exceed six percent (6%) per annum; and the Pension Obligation Bonds shall mature not later than ten (10) years following their date of issuance. The Pension Obligation Bonds shall constitute an obligation imposed by law pursuant to the Constitution of the State of California and the Retirement Law and an obligation of the City not limited as to payment from any special source of funds. The Pension Obligation Bonds shall not, however, constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

SECTION 3. The City hereby reaffirms and ratifies the approval of that certain Trust Agreement (the "Trust Agreement") to be entered into by and between the City and U.S. Bank National Association, as trustee thereunder, relating to the Pension Obligation Bonds, including the form of Pension Obligation Bond attached thereto, in substantially the form on file with the City Clerk, together with such additions thereto and changes therein as the Mayor, the City Manager, and the Finance Director or their respective designees (collectively, the "Authorized Representatives") shall deem necessary, desirable or appropriate, the execution of which by the City shall be conclusive evidence of the approval of any such additions and changes.

SECTION 4. The City hereby approves each of the following agreements or instruments required to implement the financing plan to be accomplished by the Pension Obligation Bonds, in substantially the respective forms on file with the City Clerk, together with such additions thereto and changes therein as the Authorized Representatives shall deem necessary, desirable or appropriate, the execution of which by the City shall be conclusive evidence of the approval of any such additions and changes:

- (a) a Preliminary Official Statement for the Pension Obligation Bonds (the "Preliminary Official Statement");
- (b) a Bond Purchase Contract (the "Bond Purchase Contract") to be entered into by and between the City and UBS Securities LLC (the "Underwriter"); and
- (c) a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") to be entered into by and among the City, U.S. Bank, National Association, as trustee, and U.S. Bank National Association, as dissemination agent thereunder.

The Authorized Representatives, and each of them acting alone or together, are hereby authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest and affix the seal of the City to, the final form of such agreements for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of such agreements and such other agreements as may be necessary to carry out the purposes hereof.

SECTION 5. The City hereby approves the Preliminary Official Statement in substantially the form on file with the City Clerk, together with such additions thereto and changes therein as an Authorized Representative shall deem necessary, desirable or appropriate. The Authorized Representatives, and each of them acting alone or together, are hereby authorized and directed, as they deem appropriate, to deem final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, except for permitted omissions, the Preliminary Official Statement describing the Pension Obligation Bonds. Distribution of such Preliminary Official Statement by the Underwriter is hereby approved. The Authorized Representatives, and each of them acting alone or together, are hereby authorized to execute the final form of the Official Statement (the "Official Statement"), including as it may be modified by such additions thereto and changes therein as an Authorized Representative shall deem necessary, desirable or appropriate, and the execution of the Official Statement by the City shall be conclusive evidence of the approval of any such additions and changes. The City hereby authorizes the distribution of the Official Statement by the Underwriter. The Official Statement shall be executed in the name and on behalf of the City by an Authorized Representative.

SECTION 6. All actions heretofore taken by any officers, employees or agents of the City with respect to the issuance, delivery or sale of the Pension Obligation Bonds, or in connection with or related to any of the agreements or documents referred to herein, are hereby approved, confirmed and

ratified.

SECTION 7. The Authorized Representatives are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and sale of the Pension Obligation Bonds and the consummation and continuing administration of the transactions as described herein.

SECTION 8. This Resolution shall take effect from and after its date of adoption.

SECTION 9. The City Clerk shall certify to the adoption of this Resolution and enter it into the original records of the City.

SECTION 10. The City Clerk shall make this Resolution reasonably available for public inspection within thirty (30) days of the date this Resolution is adopted.

PASSED, APPROVED and ADOPTED this 7th day of March, 2007.

Ayes:  
Noes:  
Absent:  
Abstain:

\_\_\_\_\_  
Mayor, City of Manhattan Beach, California

ATTEST:

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

AFFIDAVIT OF POSTING

I, Liza Tamura, am now and at all times mentioned herein have been employed by the City of Manhattan Beach, California as City Clerk.

On \_\_\_\_\_, I posted a true and correct copy of the meeting agenda for the February 20, 2007 meeting of the City Council of the City of Manhattan Beach at \_\_\_\_\_, a location freely accessible to members of the public. The agenda was posted at least 72 hours before said meeting, specified the time and location of the meeting and contained a brief description of each item of business to be transacted.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on February \_\_, 2007 in the City of Manhattan Beach, County of Los Angeles, State of California.

CITY CLERK

\_\_\_\_\_  
Liza Tamura

HD&W LLP – 2/13/07 DRAFT

PRELIMINARY OFFICIAL STATEMENT DATED MARCH [9], 2007

**NEW ISSUE – BOOK-ENTRY ONLY**

**Taxable (Federal)**

**Tax-Exempt (State of California)**

**RATING:  
S&P: “\_\_\_”**

(See “RATINGS” herein)

*In the opinion of Bond Counsel to the City, interest on the Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) is exempt, under existing statutes from personal income taxes imposed by the State of California or any political subdivision thereof. See “TAX MATTERS” herein.*

**\$(Par Amount)\***

**CITY OF MANHATTAN BEACH**

**TAXABLE PENSION OBLIGATION BONDS, SERIES 2007**

**Dated: Date of Delivery**

**Due: July 1, as shown on inside cover page**

The City of Manhattan Beach (the “City”) is issuing its Taxable Pension Obligation Bonds, Series 2007 (the “Bonds”) under a Trust Agreement, dated as of March 1, 2007 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), to refund the City’s PERS Side Fund Pension Obligations (as described herein), which obligations constitute a part of the City’s obligations under the PERS Contract (as described herein) evidencing the City’s current unfunded accrued actuarial liability relating to the Side Funds (as described herein) as of the delivery date of the Bonds to the California Public Employees’ Retirement System (“PERS” or the “System”) and to pay the costs of the financing.

The Bonds will be issued to refinance a portion of the City’s statutory obligation to make payments to PERS for certain amounts arising as a result of retirement benefits accruing to members of the System. The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. However, the City is not empowered or obligated to levy or pledge taxes to make payments with respect to the Bonds. See “PLAN OF FINANCING” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The Bonds will bear interest at the rates per annum set forth on the inside cover page. Interest on the Bonds is payable semiannually on January 1 and July 1 of each year commencing July 1, 2007.

The Bonds are being issued in fully registered form, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) in the United States. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Bonds purchased. See APPENDIX C – “DTC AND THE BOOK-ENTRY SYSTEM” attached hereto.

The Bonds are not subject to redemption prior to maturity.

THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the City, and certain other conditions. Gardner, Underwood & Bacon LLC is serving as financial advisor to the City in connection with the issuance of the Bonds. Certain legal matters will be passed upon the City by the City Attorney. It is anticipated that the Bonds will be available for delivery through the DTC book-entry system in New York, New York, and through the Euroclear System and Clearstream, Luxembourg in Europe on or about March 22, 2007.

**UBS Investment Bank**

Dated: March \_\_, 2007

\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful.



\$[Par Amount]\*  
CITY OF MANHATTAN BEACH  
TAXABLE PENSION OBLIGATION BONDS, SERIES 2007

MATURITY SCHEDULE

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u> <sup>†</sup>	<u>ISIN No.</u> <sup>†</sup>
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					

\* Preliminary, subject to change.

† Copyright 2007, American Bankers Association. CUSIP and ISIN data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP and ISIN numbers are provided for reference only. Neither the City nor the Underwriter take any responsibility for the accuracy of such numbers.

**CITY OF MANHATTAN BEACH, CALIFORNIA**

**CITY OF MANHATTAN BEACH**

**Elected Officials**

Nick Tell, *Mayor*  
Jim Aldinger, *Mayor Pro-Tem*  
Richard Montgomery, *Councilmember*  
Joyce Fahey, *Councilmember*  
Mitch Ward, *Councilmember*  
  
Tim Lilligren, *City Treasurer*

**City Staff**

Geoff Dolan, *City Manager*  
Robert V. Wadden, Jr., *City Attorney*  
Bruce Moe, *Finance Director*  
Russell J. Morreale, *Assistant Finance Director*  
Henry Mitzner, *Controller*  
Liza Tamura, *City Clerk*

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**PROFESSIONAL SERVICES**

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Hawkins Delafield & Wood LLP  
*Los Angeles, California*

**FINANCIAL ADVISOR**

Gardner, Underwood & Bacon LLC  
*Los Angeles, California*

**TRUSTEE**

U.S. Bank National Association  
*Los Angeles, California*

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted with respect to the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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

Certain statements in this Official Statement, which may be identified by the use of such terms as "plan," "project," "expect," "estimate," "budget" or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectation or performance which involve known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. The City does not plan to issue updates or revisions to such forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act.

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**OFFICIAL STATEMENT**

**[\$Par Amount]\*  
CITY OF MANHATTAN BEACH  
TAXABLE PENSION OBLIGATION BONDS, SERIES 2007**

**INTRODUCTION**

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

**Purpose**

The purpose of this Official Statement, which includes the cover page, the inside cover page and appendices hereto, is to set forth certain information concerning the issuance and sale by the City of Manhattan Beach (the "City") of its Taxable Pension Obligation Bonds, Series 2007 in the aggregate initial principal amount of \$[Par Amount]\*. The Bonds are being issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "State") and a Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee").

Pursuant to its contract (the "PERS Contract") with the Board of Administration of the California Public Employees' Retirement System ("PERS" or the "System") and Section 20000 et seq. of the California Government Code (the "Retirement Law"), the City is obligated to make payments to PERS arising as a result of retirement benefits accruing to members of PERS. The City's statutory obligation includes, among others, the requirement to amortize the unfunded accrued actuarial liability ("UAAL") with respect to such retirement benefits. The Bonds will be issued pursuant to the Trust Agreement for the purpose of refunding the portion of the City's obligation to PERS included in one or more risk pools pursuant to the Retirement Law (the "PERS Side Fund Pension Obligations"), all as evidenced by the PERS Contract, and paying costs of issuance. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

**Security and Sources of Payment for the Bonds**

The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. Pursuant to the Trust Agreement, the City is required to make annual debt service deposits with the Trustee no later than July 31 of each year the Bonds remain outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

**THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.**

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\* Preliminary, subject to change.

The authorization by the City of the issuance of the Bonds as obligations of the City imposed by law, and as to the validity and conformity of the Bonds with all applicable provisions of law, were validated by judgment of the Superior Court of the State of California in and for the County of Los Angeles entered on February 6, 2007. The time period for filing of appeals with respect to the judgment expired on March 8, 2007. No appeals were filed. See "VALIDATION" herein.

### **Summaries Not Definitive**

Brief descriptions of the Bonds, the City and the Trust Agreement are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Bonds and the Trust Agreement are qualified in their entirety by reference to the actual documents, or with respect to the Bonds, the forms thereof included in the Trust Agreement, copies of all of which are available upon request and payment of duplication costs from the Trustee.

### **Continuing Disclosure**

The City has agreed to provide, or cause to be provided, in accordance with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), certain annual financial information and operating data, including the audited financial statements of the City. See "CONTINUING DISCLOSURE" herein. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

## **PLAN OF FINANCING**

### **General**

The Bonds are being issued to: (i) refund the City's PERS Side Fund Pension Obligations and (ii) pay the costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

### **Refunding of PERS Side Fund Pension Obligations Under the PERS Contract**

Proceeds of the Bonds will be used by the City to refund the portion of the City's current UAAL with respect to retirement benefits accruing to members of PERS included in two risk pools pursuant to the Retirement Law, all as evidenced by the PERS Contract. PERS estimates that as of delivery of the Bonds, the UAAL relating to the City's PERS Side Fund Pension Obligations is at least \$6.634 million. See "PERS PENSION PLANS" herein.

The PERS Contract, including the PERS Side Fund Pension Obligations, is an absolute and unconditional obligation imposed upon the City by law, without any right of set-off or counterclaim. Upon the refunding of the PERS Side Fund Pension Obligations with the proceeds of the Bonds, the City's obligation with respect to Bonds will be an absolute and unconditional obligation imposed upon the City by law, without any right of set-off or counterclaim.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds with respect to the Bonds are set forth below:

<u>Sources of Funds</u>	
Principal Amount of Bonds	\$
 <u>Uses of Funds</u>	
Refunding of PERS Side Fund Pension Obligations	\$
Cost of Issuance <sup>(1)</sup>	_____
Total Uses	\$ _____

<sup>(1)</sup> Includes Underwriter's discount, legal fees, fees of the financial advisor, the Trustee, the actuary, rating agency fees, printing costs and certain miscellaneous expenses.

**THE BONDS**

**General**

The Bonds will be issued only in fully registered form, in denominations of \$5,000 and any integral multiple thereof and shall mature on the dates and in the principal amounts and bear interest at the rates set forth on the inside cover hereof. Interest on the Bonds shall be payable semiannually on January 1 and July 1 of each year commencing July 1, 2007 (each, an "Interest Payment Date").

The Bonds will each be dated their date of original delivery issued in fully registered form, without coupons, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Bonds purchased. Payments of principal of and interest on the Bonds will be paid by the Trust to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX C – "DTC AND THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

**Redemption**

The Bonds are not subject to redemption prior to their maturity.

**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

**General**

The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim.

The Trust Agreement provides that the City will provide for the payment of principal of and interest on the Bonds from any source of legally available funds of the City. If any Bonds are Outstanding, the City will no later than July 31 of each year, deliver funds to the Trustee for deposit into the Revenue Fund (as defined in the Trust Agreement) in an aggregate amount equal to the Deposit Amount (as defined in the Trust Agreement) (less amounts on deposit in the Revenue Fund (as defined in the Trust Agreement)) for the Payment Calculation Period (as defined in the Trust Agreement) in which such July 31 falls. The City will



specify to the Trustee the portion of such Deposit Amount to be deposited to the Bond Interest Account and the Bond Principal Account (each as defined in the Trust Agreement) of the Revenue Fund, respectively.

THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The City has other obligations outstanding that are payable from its General Fund. See APPENDIX A – “CITY OF MANHATTAN BEACH – City Financial Information – *Outstanding General Fund Debt and Lease Obligations*” attached hereto. The City expects to incur additional obligations payable from its General Fund in the future.

**DEBT SERVICE SCHEDULE**

The following table sets forth the annual debt service schedule for the Bonds.

Fiscal Year Ending June 30	Principal	Interest	Fiscal Year Total
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			

**Totals**

**RISK FACTORS**

PURCHASE OF THE BONDS INVOLVES CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE MARKET PRICE OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. HOWEVER, THE FOLLOWING DOES NOT PURPORT TO BE AN EXHAUSTIVE LISTING OF RISKS AND OTHER CONSIDERATIONS WHICH MAY BE RELEVANT TO AN INVESTMENT IN THE BONDS. IN ADDITION, THE ORDER IN WHICH THE FOLLOWING FACTORS ARE PRESENTED IS NOT INTENDED TO REFLECT THE RELATIVE IMPORTANCE OF ANY SUCH RISKS.

### **No Liability of the City to the Owners**

Except as expressly provided in the Trust Agreement, the City will not have any obligation or liability to the Owners of the Bonds with respect to the payment when due of principal of and interest on the Bonds, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

### **Not a Pledge of Taxes**

The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligation of the City to make payments on the Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Trust Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Trust Agreement to pay the principal of and interest on the Bonds from any source of legally available funds (subject to certain exceptions). The City is currently liable for other obligations payable from general revenues.

### **Additional Obligations of the City**

The City has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to pay principal of and interest on the Bonds may be decreased.

The principal of and interest on the Bonds are payable from funds lawfully available to the City. In the event that the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including debt service with respect to the Bonds, as the City Council may determine based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City currently expects to make annual debt service deposits with the Trustee no later than July 31 of each year the Bonds remain outstanding.

### **State Budget**

The City cannot predict whether the State will continue to encounter budgetary problems in this or in any future fiscal years, and if it were to do so, it is unknown what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. See "STATE BUDGET."

### **Bankruptcy**

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy

Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Trust Agreement or assume the Trust Agreement despite any provision of the Trust Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Trust Agreement, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Trust Agreement and the City's obligations to make payments thereunder.

## STATE BUDGET

*The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.*

### 2006-07 State Budget

The 2006-07 Budget Act (the "2006-07 Budget Act") was passed by the State Legislature on June 27, 2006 and signed by the Governor on June 30, 2006. The 2006-07 Budget Act authorized \$127.9 billion in spending, of which \$101.3 billion was from the General Fund and \$26.6 billion was from special funds, and reflected an improving State fiscal outlook resulting from continued stronger-than-expected growth in General Fund revenues.

Fiscal year 2005-06 began with a prior-year balance of \$9.5 billion, which amount included past budgetary borrowing. General Fund revenues, including transfers, were estimated to total \$92.7 billion in fiscal year 2005-06 and \$94.4 billion in fiscal year 2006-07. The 2006-07 Budget Act included projected expenditures of \$92.7 billion in fiscal year 2005-06 and \$101.3 billion in fiscal year 2006-07. The \$6.9 billion excess of expenditures over revenues in both fiscal year 2006-07 is expected to decrease the General Fund reserve to \$2.1 billion by the end of fiscal year 2006-07. The projected General Fund reserve amount does not yet include the fiscal impacts of future collective bargaining contracts approved by the State Legislature.

Based on the Legislative Analyst's then current projections of revenues and expenditures, presuming a continuation of the policies set forth under the 2006-07 Budget Act, the State could continue to face operating shortfalls in the range of \$4.5 billion to \$5 billion in each of fiscal years 2007-08 and 2008-09. The carryover reserve from fiscal year 2006-07 would be available to offset a portion of the projected shortfall in fiscal year 2007-08.

### 2007-08 Proposed Budget

On January 10, 2007, Governor Schwarzenegger released his 2007-08 Proposed Budget (the "2007-08 Proposed Budget"). The 2007-08 Proposed Budget projects State General Fund revenues and transfers for fiscal year 2007-08 of \$101.3 billion, an increase of approximately 7.7 percent above the anticipated revenues and transfers for fiscal year 2006-2007, and State General Fund expenditures of \$103.1 billion, an increase of approximately 1 percent above the anticipated expenditures for fiscal year 2006-07. The budget imbalance between the anticipated revenues and transfers and the proposed expenditures is expected to be addressed by fiscal year 2006-07's ending reserve fund balance of \$3.2 billion, thereby contributing to an expected year-end

reserve balance of approximately \$2.9 billion. From the projected year-end reserve balance of \$2.9 billion, \$745 million will be reserved for the liquidation of encumbrances, \$590 million will be deposited in a reserve for economic uncertainties and the remaining \$1,495 million will be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58.

Relative to the State baseline estimates as of November 2006, the 2007-08 Proposed Budget includes \$1.2 billion in additional spending (including funding for supplemental payments toward retirement of outstanding deficit-financing bonds, the University of California and the California State University), \$3.4 billion in savings attributable to, among other things, the redirection of monies from a transportation special fund to support certain transportation-related General Fund expenditures and the suspension or elimination of certain State-funded credits and adjustments, \$1.2 billion in policy-related adjustments and \$1.1 billion in savings related to the anticipated success of certain court cases involving the State.

### **LAO Overview of the 2007-08 Proposed Budget**

On January 12, 2007, the Legislative Analyst's Office ("LAO") released a report entitled "Overview of the Governor's Budget" (the "LAO Budget Overview"), which provides an analysis by the LAO of the 2007-08 Proposed Budget. The LAO Budget Overview is available on the LAO website at [www.lao.ca.gov](http://www.lao.ca.gov). Information on the website is not incorporated herein by reference.

In the LAO Budget Overview, the LAO states that even if the 2007-08 Proposed Budget was adopted in its entirety, it is likely that the actual amount of budget savings and new revenues would fall short of the levels set forth in the 2007-08 Proposed Budget. The LAO also states that the 2007-08 Proposed Budget raises a number of serious policy and legal issues and that the assumptions set forth therein appear to be optimistic such that adverse outcomes in a few of the affected areas could eliminate most or all of the State's anticipated reserve. The LAO further states that given such factors, as well as the continuing existence of the structural budget shortfall facing the State, it will be important that the State Legislature develop a more realistic budget which includes alternative budgetary solutions and avoids raising on-going commitments absent identified funding therefor.

The Fiscal Year 2007-08 State Budget ("Fiscal Year 2007-08 State Budget") is expected to be subject to significant negotiation and revision prior to its ultimate adoption. There can be no assurances that the final Fiscal Year 2007-08 State Budget will not place additional burdens on local governments or will not significantly reduce revenues to such local governments. The Fiscal Year 2007-08 State Budget is subject to approval by the State Legislature, and the City cannot predict the ultimate impact of the final approved Fiscal Year 2007-08 State Budget on the City's financial situation. In the event the final Fiscal Year 2007-08 State Budget includes decreases in City revenues or increases in required City expenditures from the levels assumed by the City, the City will be required to generate additional revenues, curtail programs and/or services, or spend down its reserve to ensure a balanced budget.

### **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

Described below are certain measures which have impacted or may in the future impact the City's General Fund Budget.

#### **Article XIII A**

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the

consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "sites" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

#### **Article XIII B**

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted,

where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The City's appropriations limit for Fiscal Year 2005-06 was \$36,892,128, and amount subject to the limitation was \$26,884,658. The City's appropriations limit for the Fiscal Year 2006-07 is \$38,226,491, and the amount shown in its budget for that year as the appropriations subject to limitation was \$31,445,786.

### **Proposition 62**

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

The requirements imposed by Proposition 62 were upheld by the California Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220; 45 Cal. Rptr. 2d 207 (1995). In this case, the Court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In La Habra, the Court held that the public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The Court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

The City is of the opinion that Proposition 62 will not materially impact any existing taxes, fees or assessments collected by the City. No revenues collected by the City have been challenged under Proposition 62.

## **Right to Vote on Taxes Initiative - Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's general fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City Council to raise revenues for the general fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements. In addition, Article XIII D contains new provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks.

Article XIII D also contains several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Article XIII C removed many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's general fund. "Assessment," "fee" and "charge" are not defined in Article XIII C, and it is not clear whether the definitions of these terms in Article XIII D (which are generally property related as described above) would be applied to Article XIII C. If the Article XIII D definitions are not held to apply to Article XIII C, the initiative power could potentially apply to revenue sources which currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

In addition, Proposition 218 added several requirements making it generally more difficult for counties and other local agencies to levy and maintain assessments for municipal services and programs.

Finally, Proposition 218 requires that all new local taxes be submitted to the electorate before they become effective. The majority approval of the City Councilmembers is required for the levying of taxes for

general government purposes of the City and the two-thirds approval of the City Councilmembers is required for the levying of taxes for specific purposes. The voter approval requirements reduce the City Counsel's flexibility to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

The City is of the opinion that Proposition 218 will not materially impact any existing taxes, fees or assessments collected by the City. No revenues collected by the City have been challenged under Proposition 218.

### **Future Initiatives**

Article XIII A, Article XIII B, Proposition 62 and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

### **ERISA CONSIDERATIONS**

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), prohibit employee benefit plans ("Plans") subject to ERISA or Section 4975 of the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest") with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and Parties in Interest.

The Underwriter, as a result of its own activities or because of the activities of an affiliate, may be considered Parties in Interest, with respect to certain plans. Prohibited transactions may arise under Section 406 of ERISA and Section 4975 of the Code if Bonds are acquired by a Plan with respect to which the Underwriter or any of its affiliates are Parties in Interest. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those transactions regarding securities purchased during the existence of an underwriting, investments by insurance company pooled separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by "qualified professional asset managers," and transactions affected by certain "in-house asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA or Section 4975 of the Code will take place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond that is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA or Section 4975 of the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.



## VALIDATION

On December 13, 2006, the City, acting pursuant to the provisions of Sections 860 *et seq.* of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California for the County of Los Angeles seeking judicial validation of the transactions relating to the issuance of the Bonds and certain other matters. On February 7, 2007, the court entered a default judgment to the effect, among other things, that the Bonds are valid, legal and binding obligations of the City and that the Bonds are valid and in conformity with all applicable provisions of law. The time period for the filing of appeals with respect to the judgment has expired and no appeals were filed. In issuing its opinion as to the validity of the Bonds, Bond Counsel has relied upon the entry of the foregoing default judgment.

## THE CITY

Information with respect to the City, including financial information, a summary of City debt, the City Investment Pool and certain economic and demographic information relating to the City is provided in APPENDIX A – “THE CITY OF MANHATTAN BEACH” attached hereto. A copy of the financial statements of the City for the Fiscal Year ended June 30, 2006 is attached hereto as Appendix B and should be read in its entirety.

## CITY FINANCIAL INFORMATION

Economic and demographic information regarding the City is contained herein in APPENDIX A – “THE CITY OF MANHATTAN BEACH” and APPENDIX B – “THE CITY OF MANHATTAN BEACH AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006” herein. Each contains important information concerning the City and should be read in its entirety. In particular, Appendix A describes certain circumstances that could materially affect the financial condition of the City in Fiscal Year 2006-07 and future Fiscal Years.

## PERS PENSION PLANS

### General

The City provides retirement benefits to certain of their employees through a contract with PERS, a multiple-employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains three pension plans for the City, a Safety Police Plan, a Safety Fire Plan and a Miscellaneous Plan (collectively, the “PERS Plans”). The City contributes to PERS amounts equal to the required rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS. For a description of the City’s retirement benefits, see APPENDIX A – “CITY OF MANHATTAN BEACH” attached hereto.

### PERS Side Funds

The City has two pension plans – the Safety Police Plan and the Safety Fire Plan – with less than 100 active members. PERS requires such pension plans to join a larger risk pool (a “Risk Pool”) with other pension plans that have similar members receiving similar benefits. In a Risk Pool, assets and liabilities across employers are combined to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same Risk Pool. To equalize funding status across agencies in each Risk

Pool, at the time the City joined the Risk Pool, a side fund was created to account for the difference between the funded status of the Risk Pool and the funded status of each of the Safety Police Plan (the "Police Side Fund") and the Safety Fire Plan (the "Fire Side Fund" and, together with the Police Side Fund, the "Side Funds"). Risk Pools and Side Funds are subject to the Actuarial Assumptions and Policies described above.

Immediately prior to the delivery of the Bonds and the refunding described herein, the PERS Side Fund Pension Obligations with respect to the Safety Police Plan will be \$4,500,860 and the PERS Side Fund Pension Obligations with respect to the Safety Fire Plan will be \$2,133,319. These Side Funds are accounted for separately from ongoing PERS contributions. The PERS Side Fund Pension Obligations with respect to the Safety Police Plan and the Safety Fire Plan, if not refunded as described herein, would amortize over a 9-year period and an 8-year period, respectively, and become a component of existing and future annual required contributions to fund the Safety Police Plan and the Safety Fire Plan. See APPENDIX A – "CITY OF MANHATTAN BEACH – City Employees Retirement Program" and APPENDIX B – "The City of Manhattan Beach Audited Financial Statements for the Fiscal Year Ended June 30, 2006 – Note 8" attached hereto.

#### **Estimated UAAL of the Side Funds**

PERS estimates that as of delivery of the Bonds, the UAAL relating to the City's PERS Side Fund Pension Obligations is \$6,634,179. Proceeds of the Bonds will be used to refund the City's PERS Side Fund Pension Obligations. Upon the issuance of the Bonds and payment of the PERS Side Fund Pension Obligations with proceeds of the Bonds, there will be no UAAL with respect to the City's Side Funds. Future assets and liabilities with respect to the Risk Pools will be reported to the respective Risk Pool and apportioned to the related Safety Police Plan or the Safety Fire Plan.

### **TAX MATTERS**

#### **General**

In the opinion of Bond Counsel to the City, interest on the Bonds (the "Taxable Bonds") (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of California or any political subdivision thereof.

The following discussion is a brief summary of certain United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Bonds by original purchasers of the Taxable Bonds who are "U.S. Holders", as defined herein. This summary does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules.

Holders of Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

#### **Original Issue Discount**

In general, if Original Issue Discount ("OID") is greater than a statutorily defined de minimis amount, a holder of a Taxable Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". "Issue price" means the first price at which a substantial amount of the Taxable Bond is sold to the public (excluding bond houses, brokers,

or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). “Stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Taxable Bond. “Qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. A holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method, subject to certain modifications.

### **Original Issue Premium**

In general, if a Taxable Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Taxable Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, the holder of a Taxable Premium Bond may either deduct the bond premium under Section 171(a)(1) or may elect under Section 171(c) of the Code to amortize that premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond). Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

### **Disposition and Defeasance**

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Taxable Bond. The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the Trust Agreement (a “defeasance”). See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT” attached hereto. For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected.

### **Backup Withholding and Information Reporting**

Information reporting requirements will apply to interest (including OID) paid after March 31, 2007 on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income

for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

#### **U.S. Holders**

The term "U.S. Holder" means a beneficial owner of a Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

#### **IRS Circular 230 Disclosure**

The advice under the caption "Taxable Bonds", concerning certain income tax consequences of the acquisition, ownership and disposition of the Taxable Bonds, was written to support the marketing of the Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the City informs you that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the City is not intended to be used, and cannot be used by any holder of a Taxable Bond, for the purpose of avoiding penalties that may be imposed on the holder under the Code, and (ii) the holder should seek advice based on the holder's particular circumstances from an independent tax advisor.

#### **CERTAIN LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approval of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is attached as Appendix E hereto. Certain legal matters will be passed upon for the City by the City Attorney. The fees of Bond Counsel and Underwriter's Counsel are contingent upon the sale of the Bonds.

#### **CONTINUING DISCLOSURE**

Pursuant to the Continuing Disclosure Agreement with respect to the Bonds (the "Disclosure Agreement"), the City has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State of California as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "repository") certain annual financial information and operating data, including its audited financial statements, and an update of certain information contained in APPENDIX A – "THE CITY OF MANHATTAN BEACH." In addition, in the Disclosure Agreement, the City has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the City to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) modifications to the rights of owners of the applicable Bonds; (4) optional, contingent or unscheduled bond calls; (5) defeasances; (6) rating changes; (7) adverse tax opinions or events adversely affecting the tax-exempt status of the applicable Bonds; (8) unscheduled draws on the debt service reserves reflecting financial difficulties; (9) unscheduled draws on credit enhancements reflecting financial difficulties; (10) substitution of credit or liquidity providers, or their failure to perform; and (11) release, substitution, or sale of property securing repayment of the applicable Bonds. These covenants have been made in order to assist the Underwriter in complying with the Rule. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City may amend the Disclosure Agreement, and waive any provision thereof, without the consent of the Owners of the respective Bonds (except to the extent required under clause (3)(ii) below), if all of the following conditions are satisfied: (1) if the amendment related to certain provisions of the applicable Disclosure Agreement, such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of an obligated person with respect to the applicable Bonds, or the type of business conducted; (2) the undertaking as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the applicable Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (3) either (i) the amendment, in the opinion of the Trustee or nationally recognized bond counsel does not materially impair the interests of the Owners or beneficial Owners of the applicable Bonds, or (ii) the holders of the applicable Bonds consent to the amendment to the applicable Disclosure Agreement pursuant to the same procedures as are required for amendments to the applicable Indenture with consent of Owners of the applicable Bonds pursuant to the terms of the applicable Indenture. The City shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

The provisions of the Disclosure Agreement are intended to be for the benefit of the Owners of the Bonds and the beneficial owners of the Bonds and in order to assist the participating Underwriter in complying with the Rule and shall be enforceable by any Owner or beneficial owners of Bonds, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the City's obligations under the Disclosure Agreement and any failure by the City to comply with the provisions thereof shall not be an event of default under the Trust Agreement. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

#### **FINANCIAL STATEMENTS**

The City's financial statements for the fiscal year ended June 30, 2006, included in Appendix B hereto, have been audited by Lance Soll & Lunghard LLP, independent auditors, as stated in their report appearing in Appendix B hereto. Lance Soll & Lunghard LLP has consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Lance Soll & Lunghard LLP with respect to any event subsequent to its report dated October 19, 2006.

#### **NO MATERIAL LITIGATION**

To the best knowledge of the City there is no action, suit or proceeding known to be pending or threatened restraining or enjoining the execution or delivery of the Bonds or the Trust Agreement or any other document relating to the Bonds, or in any way contesting or affecting the validity of the foregoing.

There are a number of lawsuits and claims pending against the City. Included in these are a number of property damage and personal injury actions seeking damages in excess of the City's insurance limits. In the opinion of the City Attorney, such suits and claims as are presently pending will not have a material adverse affect on the ability of the City to make debt service payments on the Bonds.

#### **RATINGS**

Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. ("S&P"), is expected to assign the Bonds a rating of "\_\_\_". Such rating reflects only the views of S&P and does not constitute a recommendation to buy, sell or hold the Bonds. Explanation of the significance of such rating may be obtained only from S&P as follows: Standard & Poor's, 55 Water Street, New York, New York 10041, (212) 208-8000. There is no

assurance that either such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of either such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

#### **UNDERWRITING**

The Bonds are being purchased by UBS Securities LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a price of \$\_\_\_\_\_ (which consists of the principal amounts of the Bonds of \$\_\_\_\_\_, less underwriter's discount of \$\_\_\_\_\_). The Purchase Contract relating to the Bonds (the "Purchase Contract") provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

#### **FINANCIAL ADVISOR**

The City has retained the services of Gardner, Underwood & Bacon LLC, Los Angeles, California in connection with the sale of the Bonds.

#### **MISCELLANEOUS**

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF MANHATTAN BEACH

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

**APPENDIX A**  
**THE CITY OF MANHATTAN BEACH**

APPENDIX A

THE CITY OF MANHATTAN BEACH

**History**

The City of Manhattan Beach is a general law city located in the South Bay area of Los Angeles County on the shore of the Pacific Ocean, surrounded by El Segundo to the north, Hawthorne, Lawndale and Redondo Beach to the east and Hermosa Beach to the south. The City was incorporated on December 7, 1912.

The City encompasses approximately 2,492 acres or 3.9 square miles, which is essentially fully developed consisting primarily of residential development, with commercial development along the major arterials and some light industrial development in the northeast portion of the City. The terrain is characterized by rolling hills that slope to the Pacific Ocean. Elevations vary from sea level to approximately 120 feet above sea level. The City has a mild Mediterranean type climate.

**General Economic Condition and Outlook of the City**

**General Fund.** The General Fund realized a 2005-2006 fiscal year operating surplus of \$4.15 million, which is attributable to revenues exceeding budgeted expenditures. These results were received favorably in a budget year that estimated a \$680,000 planned use of reserves given State tax take-aways.

The City adopted a balanced 2006-2007 budget on June 6, 2006. The 2006-2007 budget contains significant increases in employee benefit costs, which are related to the cost of maintaining competitive wage and benefits, the impact of wage growth on retirement rates and overtime, an increase in workers compensation costs, an increase in part time pay rates and hours to sustain increased demand and service levels, and normal growth in medical insurance coverage. Fiscal year 2006-2007 General Fund revenues are projected to increase by \$4,447,150 to \$45,546,810, representing an increase of 10.8% from the level for fiscal year 2005-2006, and General Fund expenditure levels are projected to increase by \$3,694,219, or 8.83%, from the level for fiscal year 2005-2006.

Some of the key highlights of the 2006-2007 budget estimates are as follows:

1. The General Fund balance on June 30, 2007 is projected to be \$15,765,836, which is sufficient to meet the Financial Policies requirement and required reserves for existing liabilities. At the end of fiscal year 2006-2007, the City is expected to have a Financial Policy Designation of \$9,100,473, a reserve for accrued leave and other liabilities of \$1,665,363, and an economic uncertainty reserve of \$4 million. The amount remaining in the pension stabilization reserve, equal to \$1,343,904, has been transferred to the insurance fund in response to multi-year rising cost patterns. The undesignated General Fund balance at year end 2007 is expected to be \$1 million, which will be allocated at City Council's discretion.

2. Property tax revenues are estimated to increase by \$2,203,000, or 19%, over the levels budgeted for fiscal year 2005-2006. Considering the resumption of \$672,000 of taxes previously diverted by the State, property taxes revenues increased by \$1,531,000, or 12%, to a total level of \$13,798,000. This increase reflects the continued strength in the real estate market and active remodeling activity in the City. Beginning fiscal year 2006-2007, the City will be receiving vehicle license fee amounts as a true, increased property tax allocation, with growth tied to property values. Property tax revenues continues to



be the single biggest revenue source for the General Fund, representing 30% of all General Fund revenues. Over the past ten years, the City's property assessed valuation base has increased by over 120%.

3. Sales tax revenues are estimated to increase moderately to \$7,857,000, representing an increase of 6.74% over corresponding budget amounts for fiscal year 2005-2006. Sales tax revenues are the City's second largest revenue source, accounting for 17% of all General Fund revenues.

4. The majority of the City's expenses (70% of General Fund expenses) are labor related. Salary and benefit costs represent the bulk of the overall General Fund increase of \$3,694,219, an increase of 8.83% from fiscal year 2005-2006. Of that amount, \$1,605,628 is direct salary and wage adjustments necessary to stay competitive in the marketplace. Another \$809,772 reflects medical insurance, workers compensation costs and pension costs. The City intends to carefully monitor these expenditure increases.

**Municipal Government**

The City Council, consisting of five members who are elected at large for four-year terms, is comprised of the following individuals:

Title	Member	Vocation	Term Expires March
Mayor	Nick Tell	Businessman/Investor	2009
Mayor Pro Tem	Jim Aldinger	Aerospace Engineer	2009
Councilmember	Richard Montgomery	Small Business Owner	2009
Councilmember	Joyce Fahey	LA County Superior Court Judge	2007
Councilmember	Mitch Ward	Business Owner	2007
City Treasurer	Tim Lilligren	Accountant/CPA	2009

Appointed staff members serving the City are:

Geoff Dolan	City Manager
Robert V. Wadden, Jr.	City Attorney
Liza Tamura	City Clerk
Bruce Moe	Finance Director
Marcie Scott	Human Resources Director
Richard Gill	Parks & Recreation Director
Rod Uyeda	Chief of Police
Dennis Groat	Fire Chief
Richard Thompson	Community Development Director
Neil Miller	Public Works Director

**Population and Employment**

The City has a population of approximately 34,000 residents and is basically "built-out." A substantial number of City residents commute to work outside of the City.

Major employers in the City include Target Corporation, the City of Manhattan Beach, Kinecta Federal Credit Union, Macy's West LLC, Marriot-HMC Interstate, Fry's Electronics Inc., Ralph's Grocery Store, Bristol Farms, Houston's Restaurants Inc., Recreational Equipment Inc., Jag Professional

Services Inc., Manhattan Beach Toyota, Islands Restaurant, Skechers USA Inc. and California Pizza Kitchen.

**Construction**

The following table shows residential and commercial construction activity in the City for fiscal years ended 2002 through 2006:

**TABLE 1**  
**City of Manhattan Beach**  
**Construction Values**  
**(Fiscal Years 2002-2006)**

Fiscal Year	Residential Construction		Commercial Construction	
	Number of Permits	Total Value	Number of Permits	Total Value
2001-2002	1,217	\$68,645,537	147	\$ 8,401,778
2002-2003	1,364	79,160,539	166	8,171,475
2003-2004	1,448	88,135,971	93	18,566,460
2004-2005	1,288	75,991,664	131	14,884,520
2005-2006	1,396	78,463,957	147	8,732,231

Source: City of Manhattan Beach Community Development Department.

## Taxable Transactions

Revenues from taxable sales have steadily increased over the last five years. According to the City, the most consistent revenue generators are Apple Computer, Barnes & Noble, Bristol Farms, Chevron, Fry's Electronics, Houstons, Kinecta Federal Credit Union, Macy's, Manhattan Beach Toyota-Lincoln Mercury, Target, Northrop Grumman, Office Depot, Old Navy, Ralph's Grocery, and Trader Joe's. Fifteen businesses generate approximately 50% of the City's sales tax revenues. The following table sets forth the taxable sales in the City for fiscal years ended 2001 through 2005.

**TABLE 2**  
**City of Manhattan Beach**  
**Taxable Sales**  
**(Fiscal Years 2001-2005)**  
**(In Thousands)**

	2001		2002		2003		2004		2005	
	No. of Permits	Taxable Trans.	No. of Permits	Taxable Trans.	No. of Permits	Taxable Trans.	No. of Permits	Taxable Trans.	No. of Permits	Taxable Trans.
Retail Stores										
Apparel stores	49	\$ 39,985	57	\$ 41,442	65	\$ 53,746	73	\$ 64,613	76	\$ 65,315
Gen. merchandise stores	13	118,406	12	116,144	11	120,649	14	123,766	12	125,497
Food stores	21	31,968	20	31,158	19	31,118	18	32,798	19	33,892
Eating and drinking places	131	98,833	129	98,767	133	108,697	138	117,340	143	124,859
Home furniture & appliances	33	6,588	41	9,923	47	13,944	44	15,784	59	17,077
Bldg. materi./ farm implements	4	1,450	4	1,454	6	--	6	--	6	--
Auto dealers & auto supplies	9	59,981	11	64,458	13	--	17	55,070	15	60,765
Service stations	8	22,473	8	20,878	8	24,343	7	29,263	7	33,993
Other retail stores	199	79,022	231	82,603	271	120,428	269	84,408	291	291
Retail Stores Totals	<u>467</u>	<u>458,706</u>	<u>513</u>	<u>466,827</u>	<u>573</u>	<u>472,925</u>	<u>586</u>	<u>523,042</u>	<u>628</u>	<u>551,725</u>
All Other Outlets	<u>757</u>	<u>180,922</u>	<u>757</u>	<u>165,015</u>	<u>757</u>	<u>163,697</u>	<u>729</u>	<u>160,069</u>	<u>712</u>	<u>159,326</u>
Total All Outlets	<u>1,224</u>	<u>\$639,628</u>	<u>1,270</u>	<u>\$631,842</u>	<u>1,330</u>	<u>\$636,622</u>	<u>1,315</u>	<u>\$683,111</u>	<u>1,340</u>	<u>\$711,051</u>

Source: California State Board of Equalization.

## Transportation

The City is located 3 miles south of the Los Angeles International Airport ("LAX"). The City is served by Metropolitan Transportation Authority ("MTA") buses. MTA's train service, Metrolink is within 2 miles of the City.

The City offers a shared-ride, curb to curb bus service for senior (age 55 and older) and disabled citizens called Dial-a-Ride. The City has approximately 120 miles of paved streets.

## Public Utilities

Electrical service is provided by Southern California Edison; Southern California Gas provides natural gas. The City is served by Verizon for communications purposes and Time Warner Communications for cable.

Water and wastewater services are provided by the City. The City's water system currently consists of four pump stations, two storage reservoirs, one elevated storage tank, two water supply wells and approximately 110 miles of water distribution pipelines. The City wastewater system includes

gravity lines, manholes, pumping stations and force mains and serves the majority of the area within the City.

### **Education**

Approximately 6,300 of the City's students are served by the Manhattan Beach Unified School District presided over by a separately elected board. The public school system includes five elementary schools, one middle school and one high school. There are also five private elementary schools within the City.

The City is located near several colleges and universities, including University of Southern California, UCLA, Pepperdine University, Chapman University (LA Academic Center), Loyola-Marymount University, California State Universities, Dominguez Hills and Long Beach, El Camino Community College and Los Angeles Harbor Community College.

### **Community Facilities**

There are forty acres of recreational beach area and a pier along the shoreline of the City. Two community centers are available within the City. The Parks and Recreation Department provides an array of facilities that include athletic fields, tennis, paddle tennis, volleyball and basketball courts, jogging and bike paths, a swimming pool, and dozens of sports programs and fitness classes. Throughout the City there are 11 parks providing 80 acres of parkland including 18 ball fields, 5 batting cages, 18 tennis courts (including 2 paddle tennis courts), 4 racquetball courts, 3 basketball courts, 2 par golf courses, a 1.7-mile jogging path, a 9-hole golf course and a large recreational pool. At Mira Costa High School, in addition to athletic fields and tennis courts, facilities available for public use include a gymnasium and track. Also located within the City is a 2-mile walking and jogging path that runs parallel to a bike path along the beach. Stretching along the beach spanning north and south of the Manhattan Beach Pier are over 150 volleyball courts which are also available for private or public use. The County of Los Angeles maintains the beaches and one library.

### **Public Safety**

The City provides police and fire services to the community. There are two fire stations within the City and 30 sworn positions. There is one police station serving the City with 65 sworn personnel.

Street and highway maintenance is under the supervision of the City's Public Works Department. Building inspection and code enforcement services are provided by the City. The City currently has approximately 387 part-time, exempt or full-time employees.

### **City Financial Information**

*Fund Types.* The City maintains three governmental fund types into which its revenues are deposited: General Fund, Special Revenue Fund and Capital Projects Fund.

**General Fund.** The General Fund is the general operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital improvement costs which are not paid through other funds.

**Special Revenue Funds.** The Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law or administrative regulation to be accounted for in a separate fund.

**Capital Projects Funds.** The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or the General Fund directly).

*GASB Statement No. 34.* Beginning in fiscal year 2002-2003, the City’s financial statements were completely reformatted to comply with the new reporting model developed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34. See Appendix A – “AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2006” attached hereto for a discussion of the impact of GASB Statement No. 34.

*Revenue Available for Debt Service on the Bonds.* The City will pay principal of and interest on the Bonds from moneys held in the General Fund and other available revenues, including certain parking revenues and capital project fund revenue. The General Fund accounts for resources traditionally associated with governments which are not required to be accounted for in another fund. See “APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2006” herein. See “RISK FACTORS – Additional Obligations of the City.” General Fund revenues for fiscal years ended June 30, 2002 through 2006, are shown below, compiled from the City’s audited financial statements.

The following table shows the City’s General Fund revenues by source for each of the last five fiscal years:

**TABLE 3**  
**City of Manhattan Beach**  
**General Fund Revenues**

Source	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Taxes	\$21,394,584	\$22,513,546	\$24,285,616	\$25,201,853	\$31,082,815
Licenses & Permits	1,350,574	1,488,674	1,592,806	1,522,259	1,694,393
Fines & Forfeitures	1,787,793	1,932,625	2,170,037	1,794,249	1,787,514
Use of Money & Property	3,378,252	3,181,118	2,346,253	2,353,450	2,623,593
Charges for Services	4,718,062	5,593,429	5,898,946	6,662,336	6,835,574
Inter-Governmental	2,276,473	2,323,826	1,850,933	2,762,310	1,347,606
Other	<u>941,138</u>	<u>263,933</u>	<u>347,635</u>	<u>666,232</u>	<u>489,353</u>
<b>Total</b>	<b>\$35,846,876</b>	<b>\$37,297,151</b>	<b>\$38,492,226</b>	<b>\$40,962,689</b>	<b>\$45,860,848</b>

Source: City of Manhattan Beach, California Comprehensive Annual Financial Report.

The following table shows the City's General Fund tax revenues by source for each of the last five fiscal years:

**TABLE 4**  
**City of Manhattan Beach**  
**General Fund Tax Revenues<sup>(1)</sup>**

Source	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Property Tax	\$ 9,092,327	\$10,021,646	\$11,090,838	\$11,652,108	\$15,523,154
Sales and Use Tax	6,955,753	7,202,620	7,262,693	7,266,585	8,224,842
Franchise Taxes	882,273	904,080	929,251	903,490	1,149,740
Transient Occupancy Tax	1,780,926	1,735,710	1,858,919	2,090,230	2,715,626
Business License Fees	1,876,833	2,017,534	2,134,588	2,285,524	2,468,067
Other	<u>806,472</u>	<u>631,956</u>	<u>1,009,327</u>	<u>1,003,916</u>	<u>1,001,386</u>
<b>TOTAL</b>	<b>\$21,394,584</b>	<b>\$22,513,546</b>	<b>\$24,285,616</b>	<b>\$25,201,853</b>	<b>\$31,082,815</b>

Source: City of Manhattan Beach.

<sup>(1)</sup> Amounts presented on a governmental basis.

**Budget Process.** The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June the following year. Budget requests are submitted by departmental managers to the City Manager for review. The City Manager, the Finance Director and department heads meet to review the requests and establish program objectives for the coming year. The City Manager then prepares his recommendations to the City Council and the Finance Director submits the financing plan to fund the recommended budget.

The City Council usually receives the proposed budget by the second week of May and thereafter schedules one or two public study sessions to review the recommendations with the City Manager and department heads. Tentative approvals are made by the City Council, pending determination of final fund balance and revenue figures. The Finance Director usually submits the City Council approved budget for final public hearing in May and adoption in mid-June.

Early in the calendar year, the finance department presents a mid-year review of the budget performance. At that time, mid-year results are presented to the City Council with a special emphasis placed on the financial performance to date and the state of the economy. A projection of fund balances through the end of the fiscal year is presented as well as key performance measures to assist in tracking operational goals.

From the effective date of the budget, the several amounts adopted as expenditures become appropriated to the several departments, offices and agencies for the projects and purposes named. All appropriations (excepting appropriations for capital projects which are in effect until the project is completed) lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget with a majority vote of the members of the Council.

The City Council employs an independent certified public accounting firm which, at such times as specified by the City Council, but not less than annually, examines the financial statements. As soon as practicable after the end of each fiscal year, these financial statements and an accountant's report are submitted by the accounting firm to the City Council.

**City Assessed Valuation.** The County assesses property values and collects and distributes secured and unsecured property taxes to the County, cities, school districts and other special districts within the County area.

Set forth in the table below is a listing of the assessed valuations on taxable property in the City of Manhattan Beach for fiscal years ending 1998 through 2007.

**TABLE 5**  
**City of Manhattan Beach**  
**Assessed Values of Secured and Unsecured Property**

Fiscal Year	Unsecured Net Assessed Value	Secured Net Assessed Value	Net Assessed Value (NAV)	Annual Change in NAV (Secured)
1997-1998	\$197,492,347	\$4,236,014,452	\$4,433,506,799	4.53%
1998-1999	201,355,890	4,528,275,364	4,729,631,254	6.68
1999-2000	210,414,851	5,074,196,996	5,284,611,847	11.73
2000-2001	226,898,450	5,579,448,374	5,806,346,824	9.87
2001-2002	273,591,528	6,091,583,430	6,365,174,958	9.62
2002-2003	277,743,519	6,645,597,917	6,923,341,436	8.77
2003-2004	286,052,779	7,268,382,227	7,554,435,006	9.12
2004-2005	290,276,732	7,926,523,791	8,216,800,523	8.77
2005-2006	277,468,009	8,803,421,073	9,080,889,082	10.52
2006-2007	267,916,873	9,657,547,961	9,925,464,834	9.30

Note: Secured property is property secured by the property as opposed to the property's owner. Unsecured property is property secured by the property owner. Secured property generally includes land and improvements. Unsecured property generally includes business property, boats, permanent (unlicensed) mobile homes, and other movable, assessable assets.

Source: Los Angeles County Auditor-Controller.

*Tax Levies and Delinquencies.* The basic tax rate for all taxing entities within a particular tax code area is \$1 per \$100 of assessed valuation in accordance with Article XIII A of the State Constitution. To this may be added whatever tax rates are necessary to meet debt service on indebtedness approved by the voters.

The City uses the services of the County for the assessment and collection of taxes. City taxes are collected at the same time and on the same tax rolls as are County, school district and special district taxes.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." Taxes on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year and become delinquent after December 10 and April 10 respectively. Taxes on unsecured property are assessed and payable March 1 and become delinquent on August 31 in the next fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% of the delinquent taxes per month begins to accrue beginning November 1 of the fiscal year.

Commencing in June 1982, a 10% penalty was added to delinquent taxes which have been levied on property on the secured roll (a 6% penalty is charged on property taxes that became delinquent prior to June 1982). In addition, property on the secured roll with respect to which taxes are delinquent is declared to be tax-defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of

1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more the tax-defaulted property is declared to be subject to the County Tax Collector's power of sale and may be subsequently sold within two years by the County Tax Collector.

*Major Property Taxpayers.* The following table sets forth a list of the top ten principal taxpayers within the City as of June 30, 2006, the net valuation of their property and the percentage which such taxpayer's property represents of the total assessed valuation of the taxable property in the City.

**TABLE 6**  
**City of Manhattan Beach**  
**Principal Property Taxpayers**  
**(In Thousands)**

Taxpayer	Type of Business	2005-2006 Assessed Valuation	Percentage of Total Assessed Valuation
Northrop Grumman Space & Mission	Aerospace Manufacturer	\$ 189,358	2.09%
Reef America Reit II Corporation BBB	Office Building	143,918	1.58
MB Studios LLC	Film Studios	140,445	1.55
Wells Operating Prntshp II LP	Commercial Property	91,672	1.01
Parstem Realty Company Inc.	Industrial Building	60,243	0.66
TRW Inc.	Aerospace Manufacturer	60,170	0.66
Host Marriott Corporation Interstate	Hotel	56,270	0.62
Sun Manhattan LLC	Office Building	30,000	0.33
Skechers USA Inc.	Retail	28,267	0.31
St. Paul Properties Inc.	Shopping Center	27,563	0.30
<b>Principal Taxpayer Totals</b>		<b>\$ 827,906</b>	<b>9.12%</b>
All other Taxpayers		\$ 8,252,983	90.88%
<b>City Total</b>		<b>\$9,080,889</b>	<b>100.0%</b>

Source: The City – HDL Coren & Cone.

For fiscal year 2006-2007, the County reported an increase in the citywide assessed valuation to \$9,925,464,834, which represents an increase of 9.3% from the previous fiscal year.

*Financial Statements.* All governmental funds, including the General Operating Funds and the Capital Projects Funds, are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed taxes are considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

The City employs an independent certified public accounting firm to annually audit the City's financial statements in conformity with generally accepted accounting principles for governmental entities and to review internal financial controls. As a matter of policy the City intends to engage new



auditors every three to five years to assure independence and objectivity while maintaining the highest levels of professional standards. The Finance Department of the City has been awarded the Award of Financial Reporting Achievement by The Government Finance Officers Association of the United States and Canada for fiscal year 2005-2006. The annual audit report is generally available about six months after the June 30 close of each fiscal year.

**TABLE 7**  
**City of Manhattan Beach**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**General Fund**  
**For the Fiscal Years ended June 30, 2002 through June 30, 2006**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues					
Taxes and assessments	\$21,394,584	\$22,513,546	\$24,285,616	\$25,201,853	\$31,082,815
Licenses and permits	1,350,574	1,488,674	1,592,806	1,522,259	1,694,393
Intergovernmental	2,276,473	2,323,826	1,805,933	2,762,310	1,347,606
Charges for services	4,718,062	5,593,429	5,898,946	6,662,336	6,835,574
Fines and forfeitures	1,787,793	1,932,625	2,170,037	1,794,249	1,787,514
Use of money and property	3,378,252	3,181,118	2,346,253	2,353,450	2,623,593
Net increase (decrease) in fair value of investments	205,406	(230,473)	--	--	--
Other	<u>735,732</u>	<u>494,406</u>	<u>347,635</u>	<u>666,232</u>	<u>489,353</u>
Total revenues	<u>35,846,876</u>	<u>37,297,151</u>	<u>38,492,226</u>	<u>40,962,689</u>	<u>45,860,848</u>
Expenditures					
Current					
General government	6,453,362	6,476,416	6,636,125	7,120,760	7,452,849
Public safety	16,844,852	17,873,137	19,670,728	22,126,102	23,977,154
Public works	4,205,353	4,550,451	4,687,870	4,570,303	5,706,463
Culture and recreation	<u>4,385,440</u>	<u>3,750,080</u>	<u>3,899,887</u>	<u>4,141,179</u>	<u>4,569,461</u>
Total expenditures	<u>31,889,007</u>	<u>32,650,084</u>	<u>34,894,610</u>	<u>37,958,344</u>	<u>41,705,927</u>
Excess (deficiency) of revenues over expenditures	<u>3,957,869</u>	<u>4,647,067</u>	<u>3,597,616</u>	<u>3,004,345</u>	<u>4,154,921</u>
Other financing sources (uses)					
Operating transfers in	75,000	2,099,544	75,000	33,444	48,000
Other financing sources	9,443,752	--	--	--	--
Other financing uses	(8,838,158)	--	--	--	--
Operating transfers out	<u>(6,458,429)</u>	<u>(4,498,230)</u>	<u>(975,000)</u>	<u>(6,988,164)</u>	<u>(230,000)</u>
Total other financing sources (uses)	<u>(5,777,835)</u>	<u>(2,398,686)</u>	<u>(900,000)</u>	<u>(6,954,720)</u>	<u>(182,000)</u>
Net Change in Fund Balances	<u>(1,819,966)</u>	<u>2,248,381</u>	<u>2,697,616</u>	<u>(3,950,375)</u>	<u>3,972,921</u>
Fund balances (deficit) at beginning of year	<u>17,541,503</u>	<u>15,721,537</u>	<u>17,969,918</u>	<u>20,667,534</u>	<u>17,440,250</u>
Restatements	--	--	--	723,091	165,882
Fund balances at beginning of year (as restated)	<u>--</u>	<u>--</u>	<u>--</u>	<u>21,390,625</u>	<u>17,606,132</u>
Fund balances (deficit) at end of year	<u>\$15,721,537</u>	<u>\$17,969,918</u>	<u>\$20,667,534</u>	<u>\$17,440,250</u>	<u>\$21,579,053</u>

Source: City of Manhattan Beach, California Comprehensive Annual Financial Report.

**TABLE 8**  
**City of Manhattan Beach**  
**General Fund Balance Sheet**  
**June 30, 2002 through June 30, 2006**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Assets</b>					
Cash and investments	\$15,478,770	\$18,065,194	\$21,122,342	\$17,410,600	\$18,517,290
Interest receivable	849,156	524,037	374,921	391,486	567,887
Taxes receivable	1,682,353	1,739,981	1,844,008	2,576,083	3,299,800
Accounts receivable	234,578	179,692	266,736	312,705	299,800
Note receivable	805,090	--	--	723,091	309,205
Cash and investments -- restricted	--	53,044	86,561	49,300	404,204
Due from other governments	79,592	65,969	102,392	90,387	220,296
Due from other funds	5,000	94,312	--	--	1,208,848
Prepaid items	36,599	23,804	22,727	17,031	45,016
Other receivables	<u>22,652</u>	<u>23,252</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Total Assets</b>	<b><u>\$19,193,790</u></b>	<b><u>\$20,769,285</u></b>	<b><u>\$23,819,687</u></b>	<b><u>\$21,570,683</u></b>	<b><u>\$24,872,180</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 725,961	\$ 657,511	\$ 707,068	354,543	604,998
Accrued payroll	878,685	1,050,988	--	--	--
Accrued liabilities	--	--	1,327,436	1,538,209	949,378
Accrued leave payable	120,658	135,808	138,843	165,882	--
Deposits	369,830	335,131	298,019	321,104	332,355
Deferred revenues	1,377,119	619,929	--	760,909	608,973
Unearned revenues	--	--	680,787--	689,103	797,423
Due to other governments	<u>--</u>	<u>--</u>	<u>--</u>	<u>300,683</u>	<u>--</u>
<b>Total liabilities</b>	<b><u>\$ 3,472,253</u></b>	<b><u>\$ 2,799,367</u></b>	<b><u>\$ 3,152,153</u></b>	<b><u>\$ 4,130,433</u></b>	<b><u>\$ 3,293,127</u></b>
<b>Fund balances (deficit)</b>					
<b>Reserved</b>					
Encumbrances	642,458	612,140	350,515	285,067	291,889
Prepaid	36,599	36,600	22,727	17,031	45,017
Debt Service	279,585	178,062	62,496	49,300	404,204
Long-term receivables	--	--	--	723,091	309,205
<b>Unreserved</b>					
<b>Designated</b>					
Financial Policy Reserve <sup>(1)</sup>	8,441,740	8,760,541	8,963,656	11,747,805	12,338,663
Pension Stabilization Reserve	--	2,024,545	2,024,545	2,024,545	1,343,904
Employee leave benefits	1,499,788	1,571,573	1,602,867	1,648,886	2,036,980
Undesignated	<u>4,821,367</u>	<u>4,786,457</u>	<u>7,640,728</u>	<u>944,525</u>	<u>4,809,191</u>
<b>Total fund balances</b>	<b><u>15,721,537</u></b>	<b><u>17,969,918</u></b>	<b><u>20,667,534</u></b>	<b><u>17,440,250</u></b>	<b><u>21,579,053</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$19,193,790</u></b>	<b><u>\$20,769,285</u></b>	<b><u>\$23,819,687</u></b>	<b><u>\$21,570,683</u></b>	<b><u>\$24,872,180</u></b>

Source: City of Manhattan Beach.

<sup>(1)</sup> Includes the City's financial policy, economic uncertainty and pension stabilization requirements.

*Direct and Overlapping Bonded Debt.* The statement of direct and overlapping debt (the "Debt Report") set forth below was prepared by California Municipal Statistics, Inc. as of March 1, 2007. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City takes no responsibility for its completeness or accuracy. See "THE CITY OF MANHATTAN BEACH – City Financial Information – City Assessed Valuation" for fiscal year 2006-2007 assessed valuation information.

**TABLE 9**  
**City of Manhattan Beach**  
**Direct and Overlapping Debt**  
**(As of March 1, 2007)**

CITY OF MANHATTAN BEACH

2006-07 Assessed Valuation: \$9,925,464,834

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/07</u>
Los Angeles County	1.224%	\$ 102,755
Los Angeles County Flood Control District	1.240	1,411,120
Metropolitan Water District	0.611	2,194,193
El Camino Community College District	14.445	27,883,548
Manhattan Beach Unified School District	100.	59,840,722
City of Manhattan Beach 1915 Act Bonds	100.	12,342,823
Los Angeles County Regional Park and Open Space Assessment District	1.224	<u>3,723,836</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$107,498,997</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	1.224%	\$13,414,758
Los Angeles County Pension Obligations	1.224	9,021,889
Los Angeles County Superintendent of Schools Certificates of Participation	1.224	242,563
Manhattan Beach Unified School District Certificates of Participation	100.	13,420,000
<b>City of Manhattan Beach General Fund Obligations</b>	<b>100.</b>	<b>35,720,000 (1)</b>
Los Angeles County Sanitation District No. 5 Authority	0.368	238,992
Los Angeles County Sanitation District No. 18 Authority	0.461	102,380
Los Angeles County Sanitation District South Bay Cities Authority	38.770	<u>4,289,907</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$76,450,489</b>
<b>COMBINED TOTAL DEBT</b>		<b>\$183,949,486 (2)</b>

(1) Excludes pension obligations to be sold.

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

Ratios to 2006-07 Assessed Valuation:

<b>Combined Direct Debt (\$35,720,000)</b> .....	<b>0.36%</b>
Total Overlapping Tax and Assessment Debt .....	1.08%
Combined Total Debt .....	1.85%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

Source: California Municipal Statistics, Inc.

*Outstanding General Fund Debt and Lease Obligations.* The City currently has outstanding general fund debt and lease obligations as described below. The City has never defaulted on the payment of principal or interest with respect to any of its indebtedness. The City has complied with all significant bond covenants relating to reserve and sinking fund requirements, proofs of insurance, and budgeted revenues and maintenance costs.

As of June 30, 2006, the City had two capital equipment leases with an aggregate outstanding balance of \$720,693 with the final payment scheduled in 2011.

In September 1996, the Manhattan Beach Capital Improvements Corporation executed and delivered \$4,615,000 of certificates of participation. These certificates were executed and delivered to finance the 1996 and 1997 enterprise fund projects related specifically to the water and wastewater systems. Interest rates with respect to the certificates range from 5.3% to 5.8% and mature through 2026. Installment payments to be made by the City are secured by net revenues received by the water and wastewater enterprise funds and do not obligate the City's General Fund. The annual lease payments for the obligations are level at approximately \$325,000.

On April 24, 2002, the City executed and delivered \$9,535,000 Variable Rate Demand Refunding Certificates of Participation to finance the Marine Sports Field Lease. The rate used for the repayment schedule is 3.58% which was the rate estimated at the execution and delivery of the certificates of participation. The final payment is scheduled for August 1, 2032. The annual lease payment for the obligations is estimated to be \$553,287 in fiscal year 2006-2007.

On January 23, 2003, the City executed and delivered \$13,350,000 Certificates of Participation (Metlox Public Improvements) Series 2003, the proceeds of which were used to pay the costs of a parking facility adjacent to the Metlox improvements. Interest rates on the certificates range from 2% to 5% and mature through 2033. The annual lease payments for the obligations are approximately \$860,000.

On November 9, 2004, the City executed and delivered \$12,980,000 Certificates of Participation to finance the construction of a new integrated Police and Fire Safety Facility (the "Police and Fire Safety Facility"). The certificates bear interest at 2% to 5% and mature in 2036. The annual lease payments for the obligations are approximately \$815,000.

Following is a summary of the principal amounts of the City's outstanding long-term obligations:

	As of June 30, 2006 (Audited)
Water and Wastewater Utility Bonds	\$ 3,920,000
Marine Avenue Certificates of Participation	8,780,000
Metlox Certificates of Participation	12,835,000
Police and Fire Certificates of Participation	12,980,000
Capital Leases	<u>720,693</u>
	<u>\$39,235,693</u>

On January 16, 2001, the City entered into an operating agreement with the South Bay Regional Public Communications Authority. The operating agreement provides a funding mechanism for the Authority to upgrade the 911 emergency telephone and radio dispatch center which serves the City. The City has committed to future annual payments in connection with the variable rate agreement of approximately \$2,694,176. The final payment is scheduled for January 1, 2031.

## **Capital Improvements and Construction Funds**

The City Council has established revenue sources within the Capital Improvements Fund ("CIP") through increases in the Hotel Bed Tax, on-street parking meters and citation rates. As a policy matter, the City intends to use these revenues sources for funding of capital projects. This revenue source will approximate \$1.2 million for fiscal year 2006-2007. Revenue sources within the CIP Fund have been matched with projected projects in a five year plan that is adopted annually as part of the City's budget process.

In Fiscal Year 2001-2002, Council established a policy that moneys in the CIP fund would be utilized to fund debt service with respect to the certificates executed and delivered to fund the Police and Fire Safety Facility; and any other projects would be funded from available fund balance and General Fund surpluses on a pay-as-you-go basis. Council intentionally did not prioritize the remaining list of unfunded projects, with the exception of the recently completed El Porto Parking Lot Improvements and the Strand Improvement Project (total cost \$4.5 million). The El Porto Parking Lot Improvements were fully funded Fiscal Year 2003-2004 and the Strand Improvement Project was fully funded from available surplus reserves as part of the Fiscal Year 2004-2005 budget.

The City maintains a listing of un-prioritized and unfunded projects which it reviews on an annual basis after fiscal reserves are defined. This listing contains non-critical desired enhancements many of which relate to park facility improvements and general office improvements. All City street and utility improvements are maintained through a planned and scheduled use of restricted funding sources beyond those items considered within the City's CIP Fund.

## **Investment of City Funds**

The City and its component unit are generally authorized under its investment policy and Section 53601 of the California Government Code, bond indentures and local resolutions to invest in demand deposits with financial institutions; savings accounts; certificates of deposit; U.S. Treasury securities; federal agency securities; State of California notes or bonds; repurchase agreements; medium term corporate notes; bankers' acceptances; commercial paper; and the Local Agency Investment Fund of the State of California. The City's investment policy allows for the purchase of most of the investment vehicles authorized under Section 53601 of the California Government Code.

The City and its component units have also established guidelines for security purchases with investment limitations as follows: Bankers acceptances may not exceed 40% of the City's surplus money. Negotiable certificates of deposits may not exceed 30% of the City's surplus money. Commercial paper may not exceed 180 days maturity nor exceed 15% of the City's surplus funds. Medium term corporate notes may not exceed 30% of the City's surplus funds, cannot exceed a three year term, must be made within the top three rating categories, and cannot exceed 10% for any one issuer. Investments in repurchase agreements may not exceed a term of one year and the market value of the securities that underlay a repurchase agreement shall be no less than 102% of the funds borrowed against those securities. The City's investment policy specifically prohibits investments in reverse repurchase agreements and derivatives, including interest rate floaters, range notes and mortgage derived interest-only strips.

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure

City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2006, 64% of the portfolio consisted of federal agency notes and U.S. Treasury securities, 20% invested in liquid state investment pools and 16% in high grade corporate notes. The average maturity of the portfolio was 317 days. As of June 30, 2006, the market value of the City's investment portfolio was \$57,250,594 and the investment portfolio's book value was \$57,830,498. The following table summarizes certain information relating to the City's investment portfolio as of June 30, 2006:

**TABLE 10**  
**City of Manhattan Beach**  
**Investment Portfolio Summary**  
**(as of June 30, 2006)**

Type of Investment	Book Value	Market Value
Local Agency Investment State Fund	11,261,000	11,240,571
US Government Securities	37,160,868	36,715,033
Corporate Notes	<u>9,408,630</u>	<u>9,294,990</u>
<b>TOTAL</b>	<b>57,830,498</b>	<b>57,250,594</b>

Source: City of Manhattan Beach.

### **Employee Relations**

There are 267 authorized full-time positions and approximately 120 part-time City employees. The City generally enjoys positive relations with its employees. About 23% of the City's full-time employees are not represented, while the remaining 77% are represented by employee organizations within 3 bargaining units.

The following summarizes the membership of the City's unrepresented unit and employee associations:

**TABLE 11**  
**City of Manhattan Beach**  
**Unrepresented Unit and Employee Associations**

Employee Unit	Number of Full Time Employees	Percent of Workforce	Contract Term	Contract Expiration Date
Manhattan Beach Fire Association	26	10%	5 years	7/31/2010
Manhattan Beach Police Officers' Association	54	20%	5 years	8/5/2011
Miscellaneous Unit -- Teamsters Local 911	125	47%	5 years	6/30/2011
Management/Confidential (not represented)	<u>62</u>	<u>23%</u>	N/A	N/A
<b>TOTAL</b>	<b>267</b>	<b>100%</b>		

Source: City of Manhattan Beach.

#### City Employees Retirement Program

The City contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All permanent City employees are eligible to participate in PERS. Participants in the plan vest after 5 years of employment. Employees in the plan are eligible to retire at 50 or 55, and receive annual retirement benefits calculated based on age at retirement, years of membership service and the amount of earnings based on the highest consecutive 12 months average.

The City of Manhattan Beach's defined benefit pension plans (the "Safety and Miscellaneous Plans") provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Safety and Miscellaneous Plans are part of the Public Agency portion of PERS. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees' Retirement Law (the "Retirement Law"). The City of Manhattan Beach selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance or resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS annual financial report may be obtained from the PERS Executive Office at 400 P Street, Sacramento, California 95814.

In fiscal year 2001-2002, the City Safety Retirement Plan was unbundled and replaced with a distinct Safety Police Plan (the "Safety Police Plan") and Safety Fire Plan (the "Safety Fire Plan"). The Safety Police Plan benefit was modified from two percent at fifty to three percent at fifty. The Safety Fire Plan was modified from two percent at fifty to three percent at 55.

When the Safety Police Plan and the Safety Fire Plan joined their respective risk pools pursuant to the Retirement Law, a side fund was created by PERS to account for the difference between the funded status of the applicable risk pools and the funded status of each of the Safety Police Plan and the Safety

Fire Plan. On June 30, 2006, the date of the latest audit, the side funds equaled \$4,906,077 and \$2,361,939 for Police and Fire respectively. These side funds are accounted for separately from ongoing PERS contributions and have been subject to a ten year amortization period. They become a component of annual required contributions for these plans. Proceeds of the Series 2007 Bonds will be used to refund the City's Side Fund Pension Obligations relating to such side funds, which is estimated to be \$6.634 million as of the anticipated date of issuance of the Bonds.

Since fiscal year 2002-2003, PERS pension costs, including employer and City-funded employee portions, have increased by nearly \$3.5 million as a result of the stock market declines in the early part of the decade, coupled with enhanced benefits awarded to employees in order to remain competitive in the marketplace. In fiscal year 2005-2006, a portion of the City's pension stabilization reserve was used to address such pension cost increases and certain diverted State funds. Because rates have stabilized, the remaining pension stabilization reserve balance has been transferred to the Insurance Fund to address continued increases in workers compensation and liability costs. In fiscal year 2006-2007, the City will be paying pension costs of 43.5 cents per dollar in salary for Police, 38.4 cents per dollar of salary for Firefighters and 14.2 cents per dollar in salary for non-safety personnel. Beyond these cost increases, the remaining labor cost budget increased by a modest 1% (\$115,000). See "THE CITY OF MANHATTAN BEACH – General Economic Condition and Outlook".

The following table shows annual retirement plans costs payable by the City for fiscal years 2002-2003 through 2006-2007 for all City plans.

**TABLE 12**  
**City of Manhattan Beach**  
**Annual Contributions to Retirement Plans –Police-Fire Plans**  
**Employee & Employer Contributions**

Fiscal Year ended June 30	Amount
2003	\$ 707,274
2004	1,092,146
2005	2,447,522
2006	2,855,771
2007*	3,976,794

\* Estimated.

The actuarial value of the Safety Plan assets have been determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The Safety Plans' unfunded actuarial accrued liability (or excess assets in the City's case) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period ends June 30, 2011. Following is a five-year trend chart setting forth the annual cost, related contributions, and resulting funding status for the Safety Police Plan and the Safety Fire Plan for fiscal years ending 2002 through 2006.



**Five-Year Trend Information for PERS Safety Police Plan**

Fiscal Year	Net Pension Obligation Beginning	Annual Pension Employer Contribution	Safety of APC Contributed	Net Prepayment Amortization	Net Pension Obligation Ending
6/30/2002	\$ (615,376)	\$ 457,911	100.00%	\$ 23,168	\$ (592,208)
6/30/2003	(592,208)	571,596	100.00%	28,658	(563,550)
6/30/2004	(563,550)	714,528	100.00%	34,852	(528,698)
6/30/2005	(528,698)	1,580,640	100.00%	41,861	(486,837)
6/30/2006	(486,837)	1,860,298	100.00%	52,302	(434,535)

**Five-Year Trend Information for PERS Safety Fire Plan**

Fiscal Year	Net Pension Obligation Beginning	Annual Pension Employer Contribution	Safety of APC Contributed	Net Prepayment Amortization	Net Pension Obligation Ending
6/30/2004	\$(346,146)	\$111,262	100.00%	\$13,032	\$(333,114)
6/30/2003	(333,114)	135,678	100.00%	16,120	(316,994)
6/30/2004	(316,994)	377,619	100.00%	19,604	(297,390)
6/30/2005	(297,390)	868,882	100.00%	23,547	(273,843)
6/30/2006	(273,843)	995,473	100.00%	29,419	(244,424)

The City's payroll for employees covered by PERS for the year ended June 30, 2006 was \$18.4 million out of a total payroll of \$22.3 million. See "APPENDIX A – AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDED JUNE 30, 2006."

**City Employees Post Retirement Program**

The City offers post retiree health benefits to both sworn firefighters and sworn police personnel. These are both single-employer defined benefit plans placed into effect in 1996 and 2004 for fire and police, respectively. As of June 30, 2006, 30 sworn firefighters and fifty-nine 59 police staff members were covered under the plans. These plans provide a benefit of \$300 per month for any employee with 20 years or more of service who take a service retirement. This benefit is payable from the age of retirement up to participation in Medicare or age 65. The City has fully funded the actuarial liability for both plans and will be in compliance with GASB issued Statement No. 45, which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits, for the period beginning after December 15, 2007.

**City Insurance Program**

The City adopted a self-insured workers' compensation program that is administered by a service agent. The City is self-insured for the first \$750,000 on each claim. Insurance coverage in excess of the self-insured amount is provided by a private insurance company up to a limit of \$100,000,000. Also, the City is self-insured for the first \$500,000 on each general liability claim against the City. The insurance coverage in excess of the self-insured amount is provided by Independent Cities Risk Management Authority ("ICRMA") up to a limit of \$20,000,000. ICRMA is considered a self-sustaining risk pool.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These estimates include an estimate of the claims that have been incurred but not reported. At June 30, 2006, risk management liabilities equaled a total of \$5,441,773. This amount includes an estimate of \$3,226,811 for reported claims and \$2,214,962 for incurred but not reported claims.

The City is a member of the ICRMA, a public entity risk pool currently operating as a common risk management and insurance program for 28 cities. The City pays an annual premium to the pool for its excess general liability insurance coverage. The City carries commercial companies for all other risks of loss, including property insurance including earthquake and flood, auto physical damage insurance and special events insurance.

**APPENDIX B**

**THE CITY OF MANHATTAN BEACH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

## APPENDIX C

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Holders (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "GSCC," "MBSCC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Holders of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Holders. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Holders will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Holder, of any such notice and its content or effect will not affect the validity of any other action premised on such notice.

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

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Holders will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Holders will be the responsibility of Direct and Indirect Participants.

**NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL HOLDERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL HOLDERS OR THE SELECTION OF BONDS FOR PREPAYMENT.**

None of the City or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid

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

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the City or the Trustee take any responsibility for the accuracy thereof.

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

## **GLOBAL CLEARANCE PROCEDURES**

*The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

### **Clearstream International and Clearstream**

Clearstream International is the product of the merger of Deutsche Borse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

### **Euroclear System**

The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-Participants of Euroclear may hold and transfer book-entry interests in the Securities through accounts with a direct Participant of Euroclear or any other securities intermediary that holds a book-entry interest in the Securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with Persons holding through Euroclear participants.

#### **Distribution of the Bonds through Clearstream or Euroclear**

Distributions with respect to the Bonds held through Clearstream or Euroclear are to be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system’s rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an Owner of the Bonds under the Trust Agreement on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depository’s ability to effect such actions on its behalf through DTC. Owners of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers’ securities accounts in Clearstream’s and Euroclear’s names on the books of their respective depositaries which in turn are to hold such positions in customers’ securities accounts in the depositaries’ names on the books of DTC. Citibank, N.A. acts as depository for Clearstream and the Euroclear Operator acts as depository for Euroclear (in such capacities, individually, the “Depository” and, collectively, the “Depositaries”).

Transfers of the Bonds between DTC Participants are to occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants are to occur in accordance with their respective rules and operating procedures. Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant may be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing would be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant are to be

received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlements in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, are to be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system if the transaction meets its settlement requirements, is to deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositories.

THE CITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR INTEREST ON THE BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS.



**APPENDIX D**  
**SUMMARY OF THE TRUST AGREEMENT**

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

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Manhattan Beach (the "City"), U.S. Bank National Association, as Trustee (the "Trustee"), and U.S. Bank National Association, as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by the City of its \$\_\_\_\_\_ Taxable Pension Obligation Bonds, Series 2007 (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and between the City and the Trustee. The City, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City, the Trustee and the Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

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

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

"Disclosure Representative" shall mean the chief finance officer of the City or his or her designee, or such other officer or employee as the City shall designate from time to time.

"Dissemination Agent" shall mean, initially, U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds dated March \_\_, 2007.

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

"Repository" shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement not later than March 31 after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2007. The City may satisfy this requirement by providing the Annual Report to the Dissemination Agent as provided herein. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The City’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The City will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with subsection (a). The City shall provide a written statement with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such statement of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference:

(a) Financial Statements. The financial statements of the City for the most recent fiscal year of the City then ended. If the City will prepare audited financial statements for such fiscal year, then such audited financial statements shall be filed. If the City prepares audited financial statements each fiscal year and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual

Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law or the Trust Agreement. Audited financial statements, if prepared by the City, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify in any material respect the basis upon which its financial statements are prepared, the City shall provide a description of such modification in its Annual Report, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) The following information from the Official Statement shall be updated for the most recently completed fiscal year:

- (1) Table 2 entitled "Taxable Sales" from Appendix A;
- (2) Table 5 entitled "Assessed Values of Secured and Unsecured Property" from Appendix A; and
- (3) Table 7 entitled "Combined Statement of Revenues, Expenditures and Changes in Fund Balances for General Fund" from Appendix A;
- (4) a summary of outstanding General Fund obligations as described under "Outstanding General Fund Debt and Lease Obligations" from Appendix A.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies.
- (2) an event of default under the Trust Agreement other than as described in (1) above.
- (3) unscheduled draws on the Reserve Fund.
- (4) unscheduled draws on any credit enhancements securing the Bonds.
- (5) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy.
- (6) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
- (7) modifications to the rights of Bond Owners.

- (8) unscheduled redemption of any Bond.
- (9) defeasances.
- (10) any release, substitution, or sale of property securing repayment of the Bonds.
- (11) rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the City pursuant to the Trust Agreement, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Trust Agreement. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The City hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the City and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the City, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days written notice to the City and the Trustee. The initial Dissemination Agent shall be U.S. Bank National Association.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties and the Participating Underwriter, if all of the following conditions are satisfied: (1) this

Disclosure Agreement as so amended complies with the requirements of the Rule, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (2) the City shall have delivered to the Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the City and the Trustee, to the same effect as set forth in clause (1) above, and (3) the City shall have delivered copies of such amendment to each Repository.

(b) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of any Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the sole remedy of any Owner or Beneficial Owner of the Bonds under this Disclosure Agreement shall be an action to compel performance, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement.

SECTION 11. Use of Central Post Office. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article XII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent and the Trustee shall be entitled to the same protections, limitations from liability and indemnities hereunder as are afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Trust Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and Trustee and payment of the Bonds.

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

SECTION 14. Notices. Notices to the Dissemination Agent and Trustee should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Trustee/Dissemination Agent:	U.S. Bank National Association 633 West Fifth Street, 24th Floor Los Angeles, California 90017 Attention: Corporate Trust Department Telephone: (213) 615-6023 Facsimile: (213) 615-6197
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SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: March \_\_, 2007

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

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

U.S. BANK NATIONAL ASSOCIATION, as Trustee

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

CITY OF MANHATTAN BEACH

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



EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Manhattan Beach

Name of Bond Issue: City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007

Date of Issuance: March \_\_, 2007

NOTICE IS HEREBY GIVEN that the City of Manhattan Beach (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of March 1, 2007. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

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

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

cc: City of Manhattan Beach

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Manhattan Beach (the "City"), U.S. Bank National Association, as Trustee (the "Trustee"), and U.S. Bank National Association, as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by the City of its \$\_\_\_\_\_ Taxable Pension Obligation Bonds, Series 2007 (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and between the City and the Trustee. The City, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City, the Trustee and the Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

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

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

"Disclosure Representative" shall mean the chief finance officer of the City or his or her designee, or such other officer or employee as the City shall designate from time to time.

"Dissemination Agent" shall mean, initially, U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds dated March \_\_, 2007.

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

"Repository" shall mean each National Repository and each State Repository.

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement not later than March 31 after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2007. The City may satisfy this requirement by providing the Annual Report to the Dissemination Agent as provided herein. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The City's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The City will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with subsection (a). The City shall provide a written statement with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such statement of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference:

(a) Financial Statements. The financial statements of the City for the most recent fiscal year of the City then ended. If the City will prepare audited financial statements for such fiscal year, then such audited financial statements shall be filed. If the City prepares audited financial statements each fiscal year and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law or the Trust Agreement. Audited financial statements, if prepared by the

City, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify in any material respect the basis upon which its financial statements are prepared, the City shall provide a description of such modification in its Annual Report, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) The following information from the Official Statement shall be updated for the most recently completed fiscal year:

- (1) Table 2 entitled "Taxable Sales" from Appendix A;
- (2) Table 5 entitled "Assessed Values of Secured and Unsecured Property" from Appendix A; and
- (3) Table 7 entitled "Combined Statement of Revenues, Expenditures and Changes in Fund Balances for General Fund" from Appendix A;
- (4) a summary of outstanding General Fund obligations as described under "Outstanding General Fund Debt and Lease Obligations" from Appendix A.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies.
- (2) an event of default under the Trust Agreement other than as described in (1) above.
- (3) unscheduled draws on the Reserve Fund.
- (4) unscheduled draws on any credit enhancements securing the Bonds.
- (5) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy.
- (6) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
- (7) modifications to the rights of Bond Owners.
- (8) unscheduled redemption of any Bond.
- (9) defeasances.

(10) any release, substitution, or sale of property securing repayment of the Bonds.

(11) rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the City pursuant to the Trust Agreement, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Trust Agreement. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The City hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the City and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the City’s instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the City, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days written notice to the City and the Trustee. The initial Dissemination Agent shall be U.S. Bank National Association.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties and the Participating Underwriter, if all of the following conditions are satisfied: (1) this Disclosure Agreement as so amended complies with the requirements of the Rule, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (2) the City shall have delivered to the Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal

securities laws, addressed to the City and the Trustee, to the same effect as set forth in clause (1) above, and (3) the City shall have delivered copies of such amendment to each Repository.

(b) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of any Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the sole remedy of any Owner or Beneficial Owner of the Bonds under this Disclosure Agreement shall be an action to compel performance, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement.

SECTION 11. Use of Central Post Office. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article XII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent and the Trustee shall be entitled to the same protections, limitations from liability and indemnities hereunder as are afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Trust Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and Trustee and payment of the Bonds.

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

SECTION 14. Notices. Notices to the Dissemination Agent and Trustee should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Trustee/Dissemination Agent: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, California 90017  
Attention: Corporate Trust Department  
Telephone: (213) 615-6023  
Facsimile: (213) 615-6197

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: March \_\_, 2007

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

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

U.S. BANK NATIONAL ASSOCIATION, as Trustee

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

CITY OF MANHATTAN BEACH

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

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Manhattan Beach

Name of Bond Issue: City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007

Date of Issuance: March \_\_, 2007

NOTICE IS HEREBY GIVEN that the City of Manhattan Beach (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of March 1, 2007. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

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

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

cc: City of Manhattan Beach



§ \_\_\_\_\_  
**CITY OF MANHATTAN BEACH**  
**TAXABLE PENSION OBLIGATION BONDS**  
**SERIES 2007**

March \_\_, 2007

PURCHASE CONTRACT

City of Manhattan Beach  
 Manhattan Beach, California

Ladies and Gentlemen:

The undersigned, UBS Securities LLC (the "Underwriter"), offers to enter into this Purchase Contract (this "Purchase Contract") with the City of Manhattan Beach (the "City"), which upon acceptance will be binding upon the Underwriter and the City. This offer is made subject to the City's acceptance by the execution of this Purchase Contract and its delivery to the Underwriter on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City at any time prior to the acceptance hereof by the City. All capitalized terms used herein, which are used and not otherwise defined herein, shall have the meanings ascribed to such terms in the Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee").

The above-captioned Taxable Pension Obligation Bonds Series 2007 (the "Bonds") are being issued to (a) refund that certain contract entered into by the City with the Public Employees' Retirement System ("PERS") evidencing the City's obligation to fund retirement benefits pursuant to the Public Employees' Retirement Law (the "Retirement Law"), including the portion of the City's obligation to PERS included in two risk pools pursuant to the Retirement Law, and (b) pay certain costs of issuance associated with the Bonds.

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

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell to the Underwriter, all (but not less than all) of the Bonds, dated the date of delivery, bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit A hereto. The City is obligated under the Trust Agreement and the Bonds to make payment of principal and interest on the Series 2007 Bonds is from any source of legally available funds of the City.

The purchase price for the Bonds shall be \$\_\_\_\_\_ (representing the principal amount of the Bonds of \$\_\_\_\_\_.00, less original issue discount / plus net original issue premium of \$\_\_\_\_\_ and less an Underwriter's discount of \$\_\_\_\_\_). The

Bonds shall be substantially in the form described in, shall be issued and sold and secured under the provisions of the Trust Agreement.

(b) Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated February \_\_, 2007, relating to the Bonds, which, together with the cover page, the inside cover page and appendices thereto, any documents incorporated therein by reference and any supplements or amendments thereto and as disseminated in its printed physical form or in electronic form in all respects materially consistent with such physical form, is herein called the "Preliminary Official Statement." By its acceptance of this Purchase Contract, the City hereby ratifies the use by the Underwriter of the Preliminary Official Statement; and the City agrees to execute a final official statement relating to the Bonds (the "Official Statement") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of Hawkins Delafield & Wood LLP, Los Angeles, California, as Bond Counsel to the City ("Bond Counsel"), and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 2(l) hereof. The City hereby authorizes the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The City further authorizes the Underwriter to use and distribute, in connection with the Purchase Contract and all information contained herein, all other documents, certificates and statements furnished by or on behalf of the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

(c) Except as the Underwriter and the City may otherwise agree, the City will deliver to the Underwriter, at the offices of Bond Counsel or at such other location as may be mutually agreed upon by the Underwriter and the City, the documents hereinafter mentioned and the City will deliver to the Underwriter at the offices of The Depository Trust Company ("DTC") in New York, New York or to the Trustee, if the closing will occur under DTC's "FAST" program, the Bonds, in definitive form (all Bonds bearing CUSIP numbers), duly executed by the City and authenticated by the Trustee in the manner provided for in the Trust Agreement at 8:00 a.m. California time, on March 22, 2007 (the "Closing Date"), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (a) of this Section, in immediately available funds (such delivery and payment being herein referred to as the "Closing"). The Bonds shall be made available to the Underwriter for inspection not later than two Business Days prior to the Closing Date. The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC.

(d) The Underwriter agrees to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change such initial offering price or prices as the Underwriter shall deem necessary in connection with the marketing of the Bonds and to offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering price or prices set

forth in the Official Statement. The Underwriter also reserves the right (i) to over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market, and (ii) to discontinue such stabilizing, if commenced at any time.

(e) The City will, pursuant to the Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), dated as of the Closing Date, between the City and the Trustee, as dissemination agent thereunder, undertake to provide certain annual financial information and notices of the occurrence of certain listed events, if material under federal securities laws. A description of this undertaking is set forth in the Preliminary Official Statement and the Final Official Statement (each as described herein).

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

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

(b) By all necessary official action of the City, prior to or concurrently with the acceptance hereof, including by resolution adopted by the City Council of the City on [February 20, 2007] (the “City Resolution”), the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the Official Statement.

(c) The information contained in the Preliminary Official Statement is true, correct and complete in all material respects and does not, and on the Closing Date such information will not, contain any untrue statement of a material fact or omit to state any material fact which is necessary to make such statements and information therein, in light of the circumstances under which they were made, not misleading in any material respect (except this representation does not include information relating to DTC or its book-entry only system).

(d) To the best knowledge of the City, the execution and delivery of the City Documents and compliance with the provisions on the City’s part contained herein and therein will not, to any material extent, conflict with or constitute a breach of or default under the City’s duties under said documents or any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, articles, bylaws, agreement or other instrument to which the City is a party or is otherwise subject, which

conflict, breach or default could have a material adverse effect on the ability of the City to perform its obligations under the City Resolution or City Documents, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, articles, bylaws, agreement or other instrument, except as provided by the City Documents.

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

(f) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the City, threatened against the City affecting the existence of the City or challenging the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the execution or delivery of the Bonds, or in any way contesting or affecting the validity or enforceability of this Purchase Contract, the City Resolution or the City Documents or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness, accuracy or fairness of the Official Statement or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds, the City Resolution or the City Documents.

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

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

forth and such other financial information regarding the City contained in the Preliminary Official Statement has been determined on a basis substantially consistent with that of the City's audited financial statements included in the Preliminary Official Statement.

(i) Since June 30, 2006, no material adverse change has occurred in the financial condition, assets, properties or results of operation of the City which is not described in the Preliminary Official Statement.

(j) No event affecting the City has occurred since the date of the Preliminary Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Preliminary Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) The City has never failed to comply with the terms of any continuing disclosure agreement entered into prior to the date hereof relating to the provision of annual reports in accordance with Rule 15c2-12.

(l) The Preliminary Official Statement heretofore delivered to the Underwriter has been deemed final by the City as of its date, except for the omission of such information as is permitted to be omitted in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"). The City hereby covenants and agrees that, within seven (7) business days from the date hereof, or upon reasonable written notice from the Underwriter within sufficient time to accompany any confirmation requesting payment from any customers of the Underwriter, the City shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with Rule 15c2 12 and the applicable rules of the Municipal Securities Rulemaking Board.

The execution and delivery of this Purchase Contract by the City shall constitute a representation to the Underwriter that the representations and warranties contained in this Section 2 are true as of the date hereof.

Section 3. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the City contained herein, to the accuracy in all material respects of the statements of the officer and other officials of the City made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the City of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the City Resolution and the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the authorization and issuance of the Bonds, and

with the transactions contemplated thereby, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

(b) At the Closing Date, except as was described in the Preliminary Official Statement, the City shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the performance by the City of its obligations under the City Resolution, the City Documents, and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the City of its obligations under the City Resolution, the City Documents or the Bonds.

(c) The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto, true, correct and complete in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the inside cover page of the Official Statement, of the Bonds shall not have been materially adversely affected (evidenced by a written notice to the City terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

(1) Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or

indirectly, of materially adversely affecting the Federal or State tax status of the City, or the interest on the Bonds or notes or obligations of the general character of the Bonds;

(2) Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under or other requirements of the Trust Agreement Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

(3) A general suspension of trading in securities on the New York Stock Exchange, or a general banking moratorium declared by federal, State of New York or State officials authorized to do so;

(4) A stop order, ruling or regulation by the Securities and Exchange Commission shall be issued or made the effect of which is that the execution, delivery or sale of the Bonds, the adoption of the City Resolution or the execution and delivery of the Trust Agreement, as contemplated hereby or by the final Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, of the Securities Exchange Act of 1934, as amended and as then in effect, or of the Trust Indenture Act of 1939, as amended and as then in effect;

(5) The introduction, proposal or enactment of any amendment to the federal or California Constitution or any action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the City, its property, income, securities (or interest thereon), the validity or enforceability of the City Documents or the Bonds;

(6) Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(7) There shall have occurred any outbreak of hostilities or other local, national or international calamity or crisis, the effect of which on the financial markets of the United States of America, in the reasonable judgment of the Underwriter, is such as to materially and adversely affect (a) the market price or the marketability of the Bonds, or (b) the ability of the Underwriter to enforce contracts for the sale of the Bonds; or

(8) Any rating of the Bonds shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Bonds.

(e) At or prior to the Closing Date, the Underwriter shall have received counterpart originals or certified copies of the following documents, in each case satisfactory in form and substance to the Underwriter:

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

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

(3) A copy of the resolution adopted by the City with respect to the execution and delivery of the Trust Agreement, the authorization of the issuance of the Bonds and the authorization of an action for judgment under Code of Civil Procedure Sections 860 *et seq.*, together with a certificate of the City Clerk, dated as of the Closing Date, to the effect that such resolution is a true, correct and complete copy of the resolution duly adopted by the City Council;

(4) A copy of the City Resolution authorizing the execution and delivery of the City Documents, together with a certificate of the City Clerk, dated as of the Closing Date, to the effect that such resolution is a true, correct and complete copy of the resolution duly adopted by the City Council;

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

(6) A supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that: (i) this Purchase Contract, the City Documents have been duly authorized, executed and delivered by the City, as appropriate, and, assuming due authorization, execution and delivery by the other parties thereto, are legal, valid and binding agreements of the City, respectively, enforceable in accordance with their terms, except as limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or



remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California); (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and (iii) the statements in the Official Statement on the cover page thereof, under the captions "INTRODUCTION," "THE BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "VALIDATION," "TAX MATTERS" and "CONTINUING DISCLOSURE" and in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT" to the Official Statement, insofar as such statements purport to summarize certain provisions of the Bonds, the City Documents and Bond Counsel's approving opinion present a fair and accurate summary of such provisions;

(7) An opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, as Disclosure Counsel ("Disclosure Counsel"), dated the Closing Date and addressed to the City and to the Underwriter, to the effect that based upon information made available to such counsel in the course of such counsel's participation in the transaction as Disclosure Counsel and assuming the accuracy, completeness and fairness of the statements contained in the Official Statement, nothing has come to such counsel's attention which has led such counsel to believe that the Official Statement (except for any financial, statistical, economic or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions, expressions of opinion, or environmental matters set forth in each of the appendices thereto and DTC and its book-entry only system, which is expressly excluded from the scope of the letter and as to which no opinion or view need be expressed) as of the date of the Official Statement and as of the Closing Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading in any material respect;

(8) An opinion of the City Attorney, dated the Closing Date, and addressed to the Underwriter, substantially to the following effect:

(i) the City is a general law city organized and validly existing under the laws of the State;

(ii) the city resolution with respect to the execution and delivery of the Trust Agreement, the authorization of the issuance of the Bonds and the authorization of an action for judgment under Code of Civil Procedure Sections 860 *et seq.* has been duly adopted, and the City Resolution is in full force and effect and has not been modified, amended or rescinded;

(iii) the City Resolution approving and authorizing the execution and delivery of the City Documents and approving the Official Statement has been duly adopted, and the City Resolution is in full force and effect and has not been modified, amended or rescinded;

(iv) the statements contained in the Official Statement are accurate in all material respects, (provided that such counsel need not express any opinion with respect to DTC or its book-entry only system or any financial or statistical information contained therein);

(v) the City has duly authorized, executed and delivered the City Documents and, assuming due authorization, execution and delivery thereof by the respective other parties thereto, the City Documents constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms;

(vi) there is no litigation, proceeding, action, suit or investigation at law or in equity before or by any court, governmental authority or body, pending or, to the best knowledge of such counsel, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents, in any way contesting or affecting the validity of the City Documents or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the transactions contemplated by the City Documents, or which questions the right of the City to pay debt service on the Bonds pursuant to the terms of the Trust Agreement; and

(vii) in the course of the City Attorney's participation in the preparation of the Official Statement and without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, the City Attorney has no reason to believe that the Official Statement (except for any financial, statistical, economic or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions, expressions of opinion, or environmental matters set forth in each of the appendices thereto and DTC and its book-entry only system, which is expressly excluded from the scope of the letter and as to which no opinion or view need be expressed) as of the date of the Official Statement and as of the Closing Date contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(9) A certificate of the City, dated the Closing Date and signed by an authorized signatory on behalf of the City, to the effect that: (i) the representations

and warranties of such City contained in this Purchase Contract are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the Official Statement, (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, and (iii) the City has complied with all the agreements and satisfied all the conditions on its part to be satisfied under the City Documents and the Official Statement at or prior to the Closing Date;

(10) A transcript of all proceedings relating to the authorization, the authorization and issuance of the Bonds, including certified copies of the City Resolution;

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

(12) A certificate of the Trustee, dated the Closing Date, to the effect that (i) the Trustee has been duly organized and is validly existing in good standing as a national banking association duly organized under the laws of the United States of America with full corporate power to undertake the trust of the Trust Agreement; (ii) the Trustee is duly authorized to enter into the Trust Agreement, and when the Trust Agreement is duly executed and delivered by the respective parties thereto, to authenticate and deliver the Bonds to the Underwriter pursuant to the Trust Agreement; (iii) the Trustee is duly authorized to execute and deliver the Trust Agreement and the Continuing Disclosure Agreement, to accept the obligations created by the Trust Agreement and the Continuing Disclosure Agreement and to authenticate the Bonds pursuant to the terms of the Trust Agreement; (iv) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Trustee of the other transactions contemplated to be performed by the Trustee in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Trust Agreement and the Continuing Disclosure Agreement; (v) the execution and delivery by the Trustee of the Trust Agreement and authentication of the Bonds, and compliance with the terms thereof, will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no

representation, warranty or agreement is made by the Trustee with respect to any Federal or state securities or blue sky laws or regulations), or (except with respect to the lien of the Trust Agreement) result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Trustee; and (vi) there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Bonds, the Trust Agreement and the Continuing Disclosure Agreement;

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

(14) A letter from PERS certifying the amount of the unfunded liability of the City's obligation to PERS included in two risk pools pursuant to the Retirement Law, to be paid pay from the proceeds of the Bonds;

(15) A copy of the proceedings on the City's action for judgment under Code of Civil Procedure Sections 860 *et seq.* including, without limitation, the final judgment of the Superior Court;

(16) A copy of the Notice of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the California Government Code;

(17) A certificate of Gardner, Underwood & Bacon LLC, as Financial Advisor, dated the applicable Closing Date and addressed to the City, to the effect that while the Financial Advisor has not independently verified or undertaken an independent investigation of the information in the Official Statement, based on its participation in the preparation and review of the Official Statement, no information has come to its attention which would lead it to believe that the information contained in the Official Statement is as of the date of delivery of the Bonds, not true or correct in all material respects, or that the Official Statement contains any untrue statement of a material fact or omits to state a material fact where necessary to make a statement not misleading in light of the circumstances under which it was made;

(18) Evidence of the City's underlying ratings of "\_\_\_\_" by Standard & Poor's; and

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

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Contract, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the City nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the City set forth in Section 5 hereof shall continue in full force and effect.

#### Section 4. Expenses.

(a) Whether or not the Underwriter accepts delivery of and pays for the Bonds as set forth herein, it shall be under no obligation to pay, and the City shall to pay out of the proceeds of the Bonds or any other legally available funds of the City, all expenses incidental to the performance of the City's obligations hereunder, including but not limited to the cost of printing and delivering the Bonds to the Underwriter; the costs of printing and shipping and electronic distribution of the Preliminary Official Statement and the Official Statement; the fees and disbursements of the City, the Trustee, the Financial Advisor, Bond Counsel, the City Attorney, accountants, engineers, appraisers, economic consultants and any other experts or consultants retained by the City in connection with the issuance and sale of the Bonds; rating agency fees; and any other expenses not specifically enumerated in paragraph (b) of this Section incurred in connection with the issuance and sale of the Bonds.

(b) Whether or not the Bonds are delivered to the Underwriter as set for herein, the City shall be under no obligation to pay, and the Underwriter shall be responsible for and pay, CUSIP Bureau and CDIAC fees and expenses to qualify the Bonds for sale under any “blue sky” laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds not specifically enumerated in paragraph (a) of this Section, including the fees and disbursements of its counsel.

Section 5. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to the City of Manhattan Beach, 1400 Highland Avenue, Manhattan Beach, California 90266, Attention: City Manager; any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to UBS Securities LLC, 777 South Figueroa Street, 50th Floor, Los Angeles, California 90017, Attention: Frank X. Lauterbur.

Section 6. Parties in Interest. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

Section 7. Survival of Representations and Warranties. The representations and warranties of the City hereunder shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the City and regardless of the delivery of and payment for the Bonds.

Section 8. Execution in Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 9. No Prior Agreements. This Purchase Contract supersedes and replaces all prior negotiations, agreements and understandings among the parties hereto in relation to the sale of the Bonds for the City. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the City and the Underwriter with respect to the subject matter hereof.

Section 10. Effective Date. This Purchase Contract shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

Section 11. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 12. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

Very truly yours,

UBS SECURITIES LLC

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

Frank X. Lauterbur  
Managing Director

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

Jeffrey D. Bower  
Director

CITY OF MANHATTAN BEACH

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

Geoff Dolan  
City Manager

**EXHIBIT A**

**MATURITY SCHEDULE**

**\$\_\_\_\_\_ SERIAL BONDS**

<u>Maturity Date</u> <u>(January 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
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Draft

**TRUST AGREEMENT**

**by and between the**

**CITY OF MANHATTAN BEACH**

**and**

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

---

**Dated as of March 1, 2007**

---

**relating to**

**City of Manhattan Beach  
Taxable Pension Obligation Bonds  
Series 2007**

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## TRUST AGREEMENT

This **TRUST AGREEMENT** is dated as of March 1, 2007, and is made by and between the **CITY OF MANHATTAN BEACH**, a general law city of the State of California (the "**City**"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association organized and existing under and by virtue of the laws of the United States of America, as trustee (the "**Trustee**").

### RECITALS

**WHEREAS**, the City is obligated by the Public Employees' Retirement Law, commencing with Section 20000 of the Government Code of the State of California, as amended (the "**Retirement Law**"), to make payments to the California Public Employees' Retirement System (the "**System**") relating to pension benefits accruing to the System members; and

**WHEREAS**, pursuant to the Retirement Law, contracting agencies with less than 100 active members as of June 30, 2003, including the City, shall participate in a risk pool; and

**WHEREAS**, the obligation of the City to pay its unfunded accrued actuarial liability to the System is evidenced by one or more contracts between the City and the System, as heretofore and hereafter amended from time to time (collectively, the "**PERS Contract**"), and a portion of the City's obligations are included in one or more risk pools; and

**WHEREAS**, the City is authorized pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "**Act**") to issue bonds for the purpose of refunding any evidence of indebtedness of the City, including obligations such as the PERS Contract (such refunded PERS Contract being the "**Refunded Obligation**"), and such bonds will bear interest at a fixed rate and may be sold at public or private sale or on a competitive or negotiated sale basis; and

**WHEREAS**, for the purpose of refunding the City's obligations to the System evidenced by the PERS Contract, the City has determined to issue its City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007, in the aggregate principal amount of \$\_\_\_\_\_ (the "**Bonds**"), all pursuant to and secured by this Trust Agreement providing for the issuance of Bonds, all in the manner provided herein; and

**WHEREAS**, in order to provide for the authentication and delivery of the Bonds to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof and interest thereon, the City has authorized the execution and delivery of this Trust Agreement; and

**WHEREAS**, all acts and proceedings required by law necessary to make the Bonds, when executed by the City, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the City payable in accordance with their terms, and to constitute this Trust Agreement a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Trust Agreement have been in all respects duly authorized.

**NOW, THEREFORE**, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE SUFFICIENCY OF WHICH IS HEREBY ACKNOWLEDGED AS HAVING BEEN RECEIVED, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS

## ARTICLE I

### DEFINITIONS; INTERPRETATION

**Section 1.01. Certain Defined Terms** herein.

“**Account**” means any account established pursuant to this Trust Agreement.

“**Administrative Costs**” means all costs incurred with respect to the administration of the Bonds, including the fees and expenses of the Trustee, fees and expenses of the Rating Agencies and any and all other costs of administration as set forth in a certificate of an Authorized City Representative.

“**Administrative Costs Fund**” means the Fund of that name established pursuant to Section 6.03 hereof.

“**Authorized City Representative**” means the Mayor, the City Manager, and the Finance Director, or any other officer of the City duly authorized by the City to act on his or her behalf.

“**Authorized Denominations**” means \$5,000 or any integral multiple thereof.

“**Beneficial Bondholder**” means, whenever used with respect to a Bond, the person in whose name such Bond is recorded as the beneficial Bondholder of such Bond by a Participant on the records of such Participant or such person’s subrogee.

“**Bonds**” means the City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007, issued in the principal amount of \$[Par Amount].

“**Bond Counsel**” means Hawkins Delafield & Wood LLP, Los Angeles, California or another firm of attorneys nationally recognized as experts in the area of municipal finance who are familiar with the transactions contemplated under this Trust Agreement and acceptable to the City.

“**Bond Interest Account**” means the Account of that name established within the Revenue Fund pursuant to Section 6.02(a) hereof.

“**Bond Principal Account**” means the Account of that name established within the Revenue Fund pursuant to Section 6.02(a) hereof.

“**Bondholder**” means the registered owner of any Bond.

“**Book-Entry Bonds**” means the Bonds held by DTC (or its nominee) as the registered Bondholder thereof pursuant to the terms and provisions of Section 3.03 hereof.

“**Business Day**” means a day (a) other than a day on which banks located in the City of New York, New York or the cities in which the respective principal offices of the Trustee or any Paying Agent are located, are required or authorized by law or executive order to close, and (b) on which the New York Stock Exchange is open.

“**Closing Date**” means March \_\_, 2007.

“**Continuing Disclosure Certificate**” shall mean that certain Continuing Disclosure Certificate, dated as of March 1, 2007, as originally executed by the City and as it may be amended from time to time in accordance with the terms thereof.

“**Costs of Issuance**” means all costs and expenses incurred by the City in connection with the issuance of the Bonds, including, but not limited to, out-of-pocket expenses of the City, costs and expenses of printing and copying documents and the Bonds and the fees, costs and expenses of Rating Agencies, the Trustee, counsel to the Trustee, Bond Counsel, the System’s actuary, accountants, municipal finance consultant, disclosure counsel and other consultants.

“**Costs of Issuance Fund**” means the Fund of that name established pursuant to Section 6.01 hereof.

“**Deposit Amount**” means, initially as provided in Section 5.02(a)(i), and thereafter for any Payment Calculation Period, the sum of the aggregate amount of principal and interest required to be paid on the Bonds during such Payment Calculation Period because of the maturity of such Bonds or because of an Interest Payment Date during such Payment Calculation Period.

“**DTC**” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“**Event of Default**” means any occurrence or event specified in Section 11.01 hereof.

“**Federal Securities**” means the following:

1. U.S. Treasury certificates, notes and bonds (including State and Local Government Series -- “SLGS”).
2. Direct obligations of the Treasury which have been stripped by the Treasury itself.
3. Resolution Funding Corp. (REFCORP) obligations. Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
4. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
  - a. U.S. Export-Import Bank (Eximbank)  
Direct obligations or fully guaranteed certificates of beneficial ownership
  - b. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
  - c. Federal Financing Bank
  - d. U.S. General Services Administration  
Participation certificates
  - e. U.S. Maritime Administration  
Guaranteed Title XI financing
  - f. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures  
-- U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds  
-- U.S. government guaranteed public housing notes and bonds.



**“Fiduciary or Fiduciaries”** means the Trustee, any Paying Agent, or any or all of them, as may be appropriate.

**“Fiscal Year”** means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other period as the City designates as its fiscal year.

**“Fitch”** means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized agency designated by the City.

**“Fund”** means any fund established pursuant to this Trust Agreement.

**“Holder,” or “Bondholder,” “Bondholder” or “registered Bondholder”** means the registered Bondholder of any Bonds, including DTC or its nominee as the sole registered Bondholder of Book-Entry Bonds.

**“Information Services”** means any of Financial Information, Inc.’s Financial Daily Called Bond Service, Kenny S&P Called Bond Service or Municipal and Government Called Bond Department; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services, as the City may indicate in a certificate of the City delivered to the Trustee.

**“Interest Payment Date”** means January 1 and July 1 of each year, commencing \_\_\_\_\_; provided that if any such date is not a Business Day, interest shall be paid on the next succeeding Business Day with the same effect as if paid on such date.

**“Mail”** means by first-class United States mail, postage prepaid.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized rating agency designated by the City.

**“Opinion of Bond Counsel”** means a written opinion of Bond Counsel.

**“Outstanding”** means all Bonds which have been authenticated and delivered under this Trust Agreement, except:

(a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby.

(b) Bonds deemed to be paid in accordance with Section 10.02 hereof.

(c) Bonds in lieu of which other Bonds have been authenticated under Sections 3.02 and 3.04 hereof.

(d) Bonds that have become due (at maturity or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee or a Paying Agent.

(e) For purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds Outstanding under this Trust Agreement, Bonds held by or for the account of the City or by any person controlling, controlled by or under common control with the City, unless such Bonds are pledged to secure a debt to an unrelated party, in which case such Bonds shall, for purposes of consents and other Bondholder action, be deemed to be Outstanding and owned by the party to which such Bonds are pledged. Nothing herein shall be deemed to prevent the City from purchasing Bonds from any party out of any funds available to the City.

**“Participant”** means the participants of DTC which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

**“Paying Agent”** means any paying agent for the Bonds appointed by the City pursuant to Sections 7.01 or 7.02 hereof, and any successor appointed pursuant to Section 7.04 hereof.

**“Payment Calculation Period”** means the twelve-month period commencing on each July 1 and ending on the next succeeding June 30, except that the first Payment Calculation Period shall commence on the Closing Date and end on June 30, 2007.

**“Permitted Investments”** means any of the following to the extent then permitted by law:

(1) United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations of, or obligations guaranteed directly or indirectly by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or securities or other instruments evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations, which shall be held by a custodian on behalf of such owners;

(2) (i) obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation or the Tennessee Valley Authority, or (ii) obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal), or (iii) guaranteed portions of Small Business Administration notes, or (iv) obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise; *provided, however*, that prior to investing in investments described in clause (iv) hereof, the City shall have provided to the Trustee a Certificate of the City that such investment shall have been approved for investment hereunder by the Rating Agencies;

(3) bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or its affiliates), otherwise known as bankers acceptances, which are drawn on any bank the short-term obligations of which are of the highest letter and numerical rating category as provided by the Ratings Agencies; *provided* that purchases of eligible bankers acceptances may not exceed 270 days' maturity;

(4) commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by the Ratings Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an “A” or higher rating for the issuer's unsecured debentures, other than commercial paper, as provided by the Ratings Agencies; *provided* that purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee or its affiliates) or a state or federal savings and loan association, *provided* that such certificates of deposit either shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or (ii) have maturities of not more than 365 days and be issued by any state or national bank or a state or federal savings and loan association, the short term obligations of which are rated in the highest short term letter and numerical rating category by the Rating Agencies;

(6) any repurchase agreement with any state or national bank (including the Trustee or its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement either is (i) with any institution which has debt rated no lower than "AA" or whose commercial paper is rated by at least two nationally recognized credit agencies and if rated, no lower than "F-1" by Fitch, if then rating the Bonds, no lower than "P-1" by Moody's, if then rating the Bonds, and no lower than "A-1" by S&P, if then rating the Bonds; (ii) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code *provided* that: (a) the term of such repurchase agreement is less than one year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (d) failure to maintain the requisite collateral levels by the agreed "cure period" will require the Trustee to liquidate the collateral immediately; (e) the repurchase agreement securities must be either obligations of, or fully guaranteed as to principal and interest by, the United States of America or any agency of the United States of America, certificates of deposit or bankers' acceptances; and (f) repurchase agreement securities are free and clear of any third-party lien or claim; or (iii) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; *provided* that: (a) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage by the agreed "cure period" will require the Trustee to liquidate the collateral immediately ("cure period" is defined as the time agreed to by the parties as the deadline for satisfaction of margin maintenance obligations which in the absence of an agreed "cure period" would be in accordance with market practices the same day as the margin notice is received);

(7) certificates, notes, warrants, bonds or other evidence of indebtedness of the State of California or of any political subdivision or public agency, thereof which are rated in the highest short-term rating category or within one of the two highest long term rating categories of the Rating Agencies (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) for amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank including affiliates of the Trustee, or state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(9) investments in taxable government money market portfolios restricted to obligations with an average maturity of one year or less, issued, or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America or repurchase agreements with underlying collateral which is issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, and rated in either of the two highest rating categories by the Rating

Agencies, including mutual funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services; and

(10) investment agreements including guaranteed investment contracts with providers rated “AA” or better by at least two Rating Agencies and forward delivery agreements for the delivery of investments otherwise qualifying as Permitted Investments, provided that any investment agreement for the investment of the Bond Fund will also be subject to the review and acceptance of the Rating Agencies; and

(11) the Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

**“Pre-refunded Municipals”** means pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P; provided, however, if the issue is only rated by S&P, then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipal obligations.

**“Principal Office of the Trustee”** means the office of the Trustee at the address set forth in Section 14.06 of this Trust Agreement, provided for transfer, exchange, registration, surrender and payment of Bonds means care of the corporate trust office of U.S. Bank National Association in Los Angeles, California or such other office designated by the Trustee.

**“Rating Agencies”** means Fitch and S&P or such other entities as are designated by the City from time to time and who have established a rating on the Bonds.

**“Rating Category”** means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**“Record Date”** means the first Business Day of each calendar month in which there is an Interest Payment Date.

**“Refunded Obligations”** has the meaning assigned that term in the Recitals to this Trust Agreement.

**“Registrar”** means, for purposes of this Trust Agreement, the Trustee or its successor or assignee.

**“Representation Letter”** means the Letter of Representations from the City and the Trustee to DTC with respect to the Bonds.

**“Requisition”** means a Requisition substantially in the form of Exhibit “B”, which is incorporated herein by reference thereto.

**“Responsible Officer”** means an officer of the Trustee assigned by the Trustee to administer this Trust Agreement.

**“Retirement Act”** has the meaning assigned that term in the Recitals to this Trust Agreement.

“**Revenue Fund**” means the Fund of that name established pursuant to Section 6.02(a) hereof.

“**S&P**” means Standard & Poor’s, a Division of the McGraw-Hills Companies, Inc., and its successors, and if S&P shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“**Securities Depositories**” means The Depository Trust Company, 55 Water Street, New York, New York 10041, facsimile transmission: (212) 855-1000, (212) 855-7320, or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as may be designated by the City and delivered to the Trustee.

“**State**” means the State of California.

“**Trust Agreement**” means this Trust Agreement, dated as of March 1, 2007, by and between the City and the Trustee, as it may be amended, supplemented or otherwise modified from time to time.

“**Trustee**” means the entity named as such in the heading of this Trust Agreement until a successor replaces it, and thereafter means such successor.

**Section 1.02. Other Definitional Provisions.** Except as otherwise indicated, references to Articles and Sections are to the Articles and Sections of this Trust Agreement. Any of the terms defined in Section 1.01 may, unless the context otherwise requires, be used in the singular or the plural, depending on the reference.

## ARTICLE II

### THE BONDS

**Section 2.01. Issuance of Bonds; Form.**

The Bonds may be issued by the City under the terms of this Trust Agreement only to refund the PERS Contract and to pay the Costs of Issuance in connection with the issuance of the Bonds. The Bonds shall be designated “City of Manhattan Beach Taxable Pension Obligation Bonds,” and shall be further designated as Series 2007. The Bonds shall be issued in Authorized Denominations substantially in the form set forth in Exhibit “A” hereto, which is incorporated herein by reference. The aggregate principal amount of the Bonds shall be \$[Par Amount].

**Section 2.02. Description of the Bonds; General Bond Provisions.**

Each Bond shall be issued in fully registered form and shall be numbered as determined by the Trustee. The Bonds shall be dated the Closing Date and shall initially be Book-Entry Bonds.

The Bonds shall be issued in the aggregate principal amount of \$[Par Amount] and shall mature on the dates, in the principal amounts, and interest thereon shall be computed at the rates, as shown below:

<b>Maturity Date</b> <b>( )</b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>
	\$	%

**Section 2.03. Interest on the Bonds.**

Interest on each Bond of each maturity shall be payable at the respective per annum rates set forth in Section 2.02 hereof and shall be payable on each Interest Payment Date until maturity, computed using a year of 360 days comprised of twelve 30-day months. Interest on each Bond shall accrue from the Interest Payment Date for the Bonds next preceding the date of authentication and delivery thereof, unless (i) it is authenticated after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest thereon shall be payable from such Interest Payment Date; or (ii) it is authenticated prior to the close of business on the first Record Date, in which event interest thereon shall be payable from the Closing Date; provided, however, that if at the time of authentication of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the Closing Date.

**Section 2.04. Medium of Payment.** Principal of and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Payments of interest on any of the Bonds will be made on each Interest Payment Date by check or draft of the Trustee sent by Mail, or by wire transfer to any Bondholder of \$1,000,000 or more of Bonds to the account specified by such Bondholder in a written request delivered to the Trustee on or prior to the Record Date for such Interest Payment Date, to the Bondholder thereof on the Record Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date fixed therefor by the Trustee which shall not be more than 15 days and not less than ten (10) days prior to the date of the proposed payment of defaulted interest. Payment of the principal of the Bonds at maturity will be made upon presentation and surrender of each such Bond, at the Principal Office of the Trustee.

**Section 2.05. Form.** The Bonds shall be substantially in the forms set forth in Exhibit "A," attached hereto and by this reference incorporated herein. The Bonds may be printed, lithographed, photocopied or typewritten and shall be in such Authorized Denominations as may be determined by the City.

**ARTICLE III**

**EXECUTION, AUTHENTICATION AND EXCHANGE OF BONDS;  
BOOK ENTRY BONDS**

**Section 3.01. Execution and Authentication; Registration.**

(a) The Bonds will be signed for the City with the manual or facsimile signature of the City Manager and the City Clerk is hereby authorized to countersign each of the Bonds on behalf of the City. The City may deliver to the Trustee or its agent duly executed Bonds for authentication from time to time by the Trustee or its agent as such Bonds may be required. Bonds executed and so delivered and authenticated will be valid. In case any officer of the City whose signature or whose facsimile signature shall appear on any Bonds shall cease to be such officer before the authentication of such Bonds, such signature or the facsimile signature thereof shall nevertheless be valid and sufficient for all

purposes the same as if he or she had remained in office until authentication. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond will be valid even if that person is not the proper officer on the nominal date of action and even though, at the date of this Trust Agreement, such person was not such officer.

(b) A Bond will not be valid until the Trustee or its agent executes the certificate of authentication on such Bond by manual signature. Such signature will be conclusive evidence that such Bond has been authenticated under this Trust Agreement. The Trustee may appoint an authenticating agent acceptable to the City to authenticate Bonds. An authenticating agent may authenticate Bonds whenever the Trustee may do so. Each reference in this Trust Agreement to authentication by the Trustee includes authentication by such agent.

(c) Bonds may be presented at the Principal Office of the Trustee, unless a different office has been designated for such purpose, for registration, transfer and exchange. The Registrar will keep a register of such Bonds and of their transfer and exchange.

**Section 3.02. Exchange of Bonds.** Subject to Section 3.03:

(a) All Bonds shall be issued in fully registered form. Upon surrender for transfer of any Bond at the Principal Office of the Trustee, the Trustee shall deliver in the name of the transferee or transferees a new fully authenticated and registered Bond or Bonds of Authorized Denominations of the same maturity, series and type for the aggregate principal amount which the Bondholder is entitled to receive.

(b) All Bonds presented for transfer or payment shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the City, duly executed by the Bondholder or by his duly authorized attorney. The Trustee also may require payment from the Bondholder of a sum sufficient to cover any tax, or other governmental fee or charge that may be imposed in relation thereto. Such taxes, fees and charges shall be paid before any such new Bond shall be delivered.

(c) Bonds delivered upon any transfer as provided herein, or as provided in Section 3.04, shall be valid obligations of the City, evidencing the same debt as the Bond surrendered, shall be secured by this Trust Agreement and shall be entitled to all of the security and benefits hereof to the same extent as the Bond surrendered.

(d) The City, the Trustee and the Paying Agent shall treat the Bondholder, as shown on the registration books kept by the Trustee, as the person exclusively entitled to payment of principal and interest with respect to such Bond and to the exercise of all other rights and powers of the Bondholder, except that all interest payments will be made to the party who, as of the Record Date, is the Bondholder.

**Section 3.03. Book-Entry Bonds.**

(a) Except as provided in paragraph (c) of this Section 3.03, the registered Bondholder of all of the Bonds shall be DTC and the Bonds shall be registered in the name of Cede & Co., as nominee for DTC.

(b) The Bonds shall be initially issued in the form of a separate single authenticated fully registered Bond for each series and separate stated maturity of the Bonds. The Trustee, the Registrar and the City may treat DTC (or its nominee) as the sole and exclusive Bondholder of the Bonds registered

in its name for the purposes of payment of the principal of, or interest on, the Bonds, giving any notice permitted or required to be given to Bondholders under this Trust Agreement, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, and neither the Trustee, the Registrar nor the City shall be affected by any notice to the contrary. Neither the Trustee, the Registrar nor the City shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant or any other person which is not shown on the registration books as being a Bondholder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to Bondholders under this Trust Agreement, or (iv) any consent given or other action taken by DTC as a Bondholder. The Trustee shall pay, from funds held under the terms of this Trust Agreement or otherwise provided by the City, all principal of and interest on the Bonds only to DTC as provided in the Representation Letter and all such payments shall be valid and effective to satisfy and discharge fully the City's obligations with respect to the principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than DTC shall receive authenticated Bonds evidencing the obligation of the City, to make payments of principal and interest pursuant to this Trust Agreement. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to Record Dates, the name "Cede & Co." in this Trust Agreement shall refer to such new nominee of DTC.

(c) If the City determines that it is in the best interest of the Beneficial Bondholders that they be able to obtain Bond certificates and notifies DTC, the Trustee and the Registrar of such determination, then DTC will notify the Participants of the availability through DTC of Bond certificates. In such event, the Trustee shall authenticate and the Registrar shall transfer and exchange Bond certificates as requested by DTC and any other Bondholders in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and the Trustee and discharging DTC's responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the City and the Trustee shall be obligated to deliver Bond certificates as described in this Trust Agreement. In the event Bond certificates are issued, the provisions of this Trust Agreement shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates. Whenever DTC requests the City and the Trustee to do so, the Trustee and the City will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bonds to any Participant having Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

(d) Notwithstanding any other provision of this Trust Agreement to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and interest on such Bonds and all notices with respect to such Bonds shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Bondholders pursuant to this Trust Agreement by the City or the Trustee with respect to any consent or other action to be taken by Bondholders, the City or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Notice to DTC shall be given only when DTC is the sole Bondholder.

(f) If the City purchases, or causes the Trustee to purchase, any of the Bonds, such purchase of Bonds shall be deemed to have occurred upon the purchase of beneficial ownership interests



in the Bonds from a Participant. Upon receipt by DTC of notice from the City and a Participant that a purchase of beneficial ownership interests in the Bonds has been made by the City from such Participant, DTC shall surrender to the Trustee the Bonds referenced in such notice and, if the principal amount referenced in said notice is less than the principal amount of the Bonds so surrendered, the Trustee shall authenticate and deliver to DTC, in exchange for the Bonds so surrendered, a new Bond or Bonds, as the case may be, in Authorized Denominations and in a principal amount equal to the difference between (i) the principal amount of the Bonds so surrendered and (ii) the principal amount referenced in said notice.

(g) In the event that DTC notifies the City that it is discontinuing the Book-Entry system for the Bonds, the City may either appoint another entity to hold the Bonds in book-entry form or deliver Bond certificates to the beneficial Bondholders or Participants, as directed by DTC.

**Section 3.04. Mutilated, Lost, Stolen or Destroyed Bonds.**

(a) In the event any Bond is mutilated or defaced but identifiable by number and description, the City shall execute and the Trustee shall authenticate and deliver a new Bond of like date, maturity, series, type and denomination as such Bond, upon surrender thereof to the Trustee; provided that there shall first be furnished to the City and the Trustee proof satisfactory to the Trustee that the Bond is mutilated or defaced. The Bondholder shall accompany the above with a deposit of money required by the City for the cost of preparing the substitute Bond and all other expenses connected with the issuance of such substitute. The City shall then cause proper record to be made of the cancellation of the original, and thereafter the substitute shall have the validity of the original.

(b) In the event any Bond is lost, stolen or destroyed, the City may execute and the Trustee may authenticate and deliver a new Bond of like date, maturity, series, type and denomination as that Bond lost, stolen or destroyed; provided that there shall first be furnished to the City and the Trustee evidence of such loss, theft or destruction satisfactory to the City and the Trustee, together with indemnity satisfactory to them.

(c) The City and the Trustee shall charge the holder of such Bond all transfer taxes, if any, and their reasonable fees and expenses in this connection. All substitute Bonds issued and authenticated pursuant to this Section 3.04 shall be issued as a substitute and numbered, if numbering is provided for by the Trustee, as determined by the Trustee. In the event any such Bond has matured, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee.

**Section 3.05. Destruction of Bonds.** Whenever any Outstanding Bonds shall be delivered to the Trustee for cancellation pursuant to this Trust Agreement, upon payment of the principal amount and interest represented thereby or for replacement pursuant to Section 3.04 or transfer pursuant to Section 3.02, such Bond shall be cancelled and destroyed by the Trustee and counterparts of a certificate of destruction evidencing such destruction shall, upon the City's request, be furnished by the Trustee to the City.

**Section 3.06. Temporary Bonds.**

(a) Pending preparation of definitive Bonds, the City may execute and the Trustee shall authenticate and deliver, in lieu of definitive Bonds and subject to the same limitation and conditions, interim receipts, certificates or temporary bonds which shall be exchanged for the Bonds.

(b) If temporary Bonds shall be issued, the City shall cause the definitive Bonds to be prepared and to be executed and delivered to the Trustee, and the Trustee, upon presentation to it of any temporary Bond, shall cancel the same and deliver in exchange therefor at the place designated by the Bondholder, without charge to the Bondholder thereof, definitive Bonds of an equal aggregate principal amount, of the same series, maturity and type and bearing interest at the same rate or rates as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefit and security of this Trust Agreement as the definitive Bonds to be issued and authenticated hereunder.

#### ARTICLE IV

##### REDEMPTION OF BONDS

**Section 4.01. Redemption of Bonds.** The Bonds are not subject to redemption prior to their maturity.

#### ARTICLE V

##### APPLICATION OF PROCEEDS; SOURCE OF PAYMENT OF BONDS

**Section 5.01. Application of Proceeds.** The net proceeds of the sale of the Bonds received by the Trustee, \$[Net Proceeds] (\$[Par Amount] less \$[Underwriter's Discount] underwriters' discount), shall be deposited by the Trustee as follows:

- (i) \$[Costs of Issuance Amount] shall be deposited into the Costs of Issuance Fund; and
- (ii) \$[PERS Payment Amount] shall be transferred to the System and used to prepay amounts payable under the PERS Contract.

**Section 5.02. Sources of Payment of Bonds; Annual Payment by the City.**

(a) The City shall provide for payment of principal and interest on the Bonds from any source of legally available funds of the City. If any Bonds are Outstanding, the City shall no later than July 31 of each year, deliver funds to the Trustee for deposit to the Revenue Fund in an aggregate amount equal to the Deposit Amount (less amounts on deposit in the Revenue Fund) for the Payment Calculation Period in which such July 31 falls. The City shall specify to the Trustee the portion of such Deposit Amount to be deposited to the Bond Interest Account and the Bond Principal Account of the Revenue Fund, respectively.

(b) The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligation of the City to make payments on the Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

## ARTICLE VI

### CREATION OF CERTAIN FUNDS AND ACCOUNTS

**Section 6.01. Creation of Costs of Issuance Fund.** There is hereby created a Fund to be held by the Trustee designated "City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007 Costs of Issuance Fund" (the "**Costs of Issuance Fund**"). Funds on deposit in the Costs of Issuance Fund shall be used to pay or to reimburse the City for the payment of Costs of Issuance. Amounts in the Costs of Issuance Fund shall be disbursed by the Trustee upon Requisition in the form of Exhibit "B-1", which is incorporated herein by reference thereto, executed by an Authorized City Representative.

At such time as the City delivers to the Trustee written notice that all Costs of Issuance have been paid or otherwise notifies the Trustee in writing that no additional amounts from the Costs of Issuance Fund will be needed to pay Costs of Issuance, the Trustee shall transfer all amounts then remaining in the Costs of Issuance Fund as directed by an Authorized City Representative. At such time as no amounts remain in the Costs of Issuance Fund, such Fund shall be closed.

**Section 6.02. Creation of Revenue Fund and Certain Accounts.**

(a) There is hereby created a Fund to be held by the Trustee designated "City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007 Revenue Fund" (the "**Revenue Fund**"). There are hereby created in the Revenue Fund two separate Accounts designated "**Bond Interest Account**" and "**Bond Principal Account.**"

(b) All amounts received by the Trustee from the City in respect of interest payments on the Bonds shall be deposited in the Bond Interest Account and shall be disbursed to the applicable Bondholders to pay interest on the Bonds. All amounts held at any time in the Bond Interest Account shall be held for the security and payment of interest on the Bonds pursuant to this Trust Agreement. If at any time funds on deposit in the Bond Interest Account are insufficient to provide for the payment of such interest, the City shall promptly deposit funds to such Account to cure such deficiency. On the day following the last Interest Payment Date in each Fiscal Year beginning in 2007, so long as no Event of Default has occurred and is continuing, unless otherwise directed by an Authorized City Representative, the Trustee shall wire transfer all amounts on deposit in the Bond Interest Account to the City to be used for any lawful purpose.

(c) The moneys in such Fund and Accounts shall be held by the Trustee in trust and applied as herein provided and, pending such application, shall be subject to a lien and charge in favor of the holders of the Bonds issued and Outstanding under this Trust Agreement and for the further security of such holders until paid out or transferred as hereinafter provided.

**Section 6.03. Creation of Administrative Costs Fund.** There is hereby created a Fund to be held by the Trustee designated "City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007 Administrative Costs Fund" (the "**Administrative Costs Fund**"). The City may periodically transfer funds to the Trustee for deposit to the Administrative Costs Fund. Funds on deposit in the Administrative Costs Fund shall be used to pay or to reimburse the City for the payment of Administrative Costs. Amounts in the Administrative Costs Fund shall be disbursed by the Trustee upon Requisition in the form of Exhibit "B-2" executed by an Authorized City Representative.

At such time as the City delivers to the Trustee written notice that all Administrative Costs have been paid or otherwise notifies the Trustee in writing that no additional amounts from the Administrative Costs Fund will be needed to pay Administrative Costs, the Trustee shall transfer all amounts then

remaining in the Administrative Costs Fund at the direction of the City. At such time as no amounts remain in the Administrative Costs Fund, such Fund shall be closed.

**Section 6.04. Unclaimed Moneys.** Any moneys which shall be set aside or deposited in the Bond Principal Account, the Bond Interest Account or any other Fund or Account for the benefit of holders of Bonds and which shall remain unclaimed by the holders of such Bonds for a period of one year after the date on which such Bonds shall have become due and payable (or such longer period as shall be required by State law) shall be paid to the City, and thereafter the holders of such Bonds shall look only to the City for payment and the City shall be obligated to make such payment, but only to the extent of the amounts so received without any interest thereon, and the Trustee and any Paying Agent shall have no responsibility with respect to any of such moneys.

## ARTICLE VII

### CONCERNING PAYING AGENT

**Section 7.01. Paying Agent; Appointment and Acceptance of Duties.** The City hereby appoints the Trustee as the Paying Agent for the Bonds.

**Section 7.02. Paying Agent - General Responsibilities.**

(a) The City may at any time or from time to time appoint a different Paying Agent or Paying Agents for the Bonds, and each Paying Agent, if other than the Trustee, shall be a commercial bank with trust powers and shall designate to the City and the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the City under which each such Paying Agent will agree, particularly:

(i) to hold all sums held by it for the payment of the principal of or interest on, Bonds in trust for the benefit of the Bondholders until such sums shall be paid to such Bondholders or otherwise disposed of as herein provided;

(ii) to keep such books and records as shall be consistent with prudent industry practice, to make such books and records available for inspection by the City and the Trustee at all reasonable times; and

(iii) upon the request of the Trustee, to forthwith deliver to the Trustee all sums so held in trust by such Paying Agent.

(b) The Paying Agent shall perform the duties and obligations set forth in this Trust Agreement, and in particular shall hold all sums delivered to it by the Trustee for the payment of principal of and interest on the Bonds in trust for the benefit of the Bondholders until such sums shall be paid to such Bondholders or otherwise disposed of as herein provided.

(c) In performing its duties hereunder, the Paying Agent shall be entitled to all of the rights, protections and immunities accorded to the Trustee under the terms of this Trust Agreement.

**Section 7.03. Certain Permitted Acts.** Any Fiduciary may become the Bondholder of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in

any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any bankruptcy or reorganization growing out of the enforcement of the Bonds or this Trust Agreement, whether or not any such committee shall represent the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding.

**Section 7.04. Resignation or Removal of Paying Agent and Appointment of Successor.**

(a) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Trust Agreement by giving at least 60 days' written notice to the City. Any Paying Agent may be removed at any time upon 30 days prior written notice by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized City Representative. Any successor Paying Agent shall be appointed by the City with the approval of the Trustee and shall be a commercial bank with trust powers or trust company organized under the laws of any state of the United States, having capital stock and surplus aggregating at least \$75,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Trust Agreement.

(b) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall assign and deliver any moneys and Bonds, including authenticated Bonds, held by it to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

**ARTICLE VIII**

**COVENANTS OF THE CITY**

**Section 8.01. Punctual Payment and Performance.** The City will punctually pay the principal of and interest to become due on every Bond issued hereunder in strict conformity with the terms hereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the City contained herein and in the Bonds.

**Section 8.02. Extension of Payment of Bonds.** The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for principal of, principal, if any, or interest on the Bonds by the purchase of such Bonds or by any other arrangement.

**Section 8.03. Additional Debt.** Notwithstanding anything contained herein to the contrary, the City expressly reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes at any time.

**Section 8.04. Power to Issue Bonds.** The City is duly authorized pursuant to law to issue the Bonds and to enter into this Trust Agreement. The Bonds and the provisions of this Trust Agreement are the legal, valid and binding obligations of the City in accordance with their terms. The Bonds constitute obligations imposed by law.

**Section 8.05. Accounting Records and Reports.** The City will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established hereunder, and such books shall be available for inspection by the Trustee, upon prior written request from the Trustee to the City, at reasonable hours and under reasonable conditions, provided, however, that any inspection by the Trustee shall not unreasonably interfere with

the normal and customary business of the City. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the City shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established hereunder for such Fiscal Year. The Trustee shall have no responsibility to review any reports received pursuant to this Section 8.05.

**Section 8.06. Prosecution and Defense of Suits; Indemnification of Trustee.** To the extent permitted by law, the City will: (1) defend against every suit, action or proceeding at any time brought against the Trustee upon any claim arising out of the appointment of the Trustee or performance of the Trustee's obligations hereunder; and (2) indemnify and hold harmless the Trustee, including its directors, officers and employees, against any and all liability of any nature claimed or asserted by any person arising out of the appointment of the Trustee or performance of the Trustee's obligations hereunder. This Section 8.06 shall not apply to any suit, action, proceeding, claim, liability, loss, cost, damage or expense resulting from the negligence or willful misconduct of the Trustee or breach of the Trustee's obligations herein. The indemnities provided by this Section 8.06 shall survive termination of this Trust Agreement and the resignation or removal of the Trustee.

In connection with any claim by the Trustee for indemnification or defense by the City under this Trust Agreement, the Trustee shall promptly give the City written notice setting forth the relevant facts within the actual knowledge of the Trustee and an accounting setting forth all losses, costs, claims, expenses and damages in reasonable detail. The Trustee agrees that upon receipt of notice of the commencement of any action against the Trustee with respect to which the Trustee intends to seek the City's indemnity or defense pursuant to this Trust Agreement, the Trustee shall promptly give written notice to the City of the commencement of the suit, action or proceeding, together with a copy of the papers served.

The City shall be entitled to contest or defend (including a defense with a reservation of rights that the City has no duty to indemnify or defend the Trustee) such suit, action or proceeding if it gives written notice of its intention to do so to the Trustee within 30 days after its receipt of such notice. If the City and the Trustee are parties to the same suit, action or proceeding, and the Trustee has been advised by its own counsel that one or more legal defenses may be available to the Trustee that may not be available to the City, then the Trustee shall be entitled to its own counsel in any such action brought against it for which it may seek indemnity or defense as provided herein from the City; provided that, the Trustee shall promptly advise the City in writing as to each such legal defense and the specific reason that such legal defense may be available to the Trustee and not available to the City, and provided further, that the City shall not, in connection with one such suit, action or proceeding or separate but substantially similar or related suits, actions or proceedings arising out of the same allegation or circumstances be liable for the fees and expenses of more than one (1) separate firm of attorneys for the Trustee at any point in time, and that the contemplated legal fees and estimated legal expenses of such counsel shall be approved in writing by the City prior to such retention, which approval shall not be unreasonably withheld, and that such fees and expenses shall be reasonable. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect even though all Bonds secured hereby may have been fully paid and satisfied, and the rights of the Trustee and the obligations of the City under this Section 8.06 shall survive the discharge of this Trust Agreement and the resignation or removal of the Trustee.

**Section 8.07. Further Assurances.** Except to the extent otherwise provided in this Trust Agreement, the City shall not enter into any contract or take any action by which the rights of the Trustee or the Owners may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may confirm to the Trustee all the rights and obligations of the City under and pursuant to this Trust Agreement.

**Section 8.08. Trust Agreement to Constitute a Contract.** This Trust Agreement is executed by the City for the benefit of the Bondholders and constitutes a contract with the Bondholders.

**Section 8.09. City to Perform Pursuant to Continuing Disclosure Certificate.** The City hereby covenants and agrees that it will comply with and carry out its duties and obligations under the Continuing Disclosure Certificate. Notwithstanding any other provision of this Trust Agreement, failure of the City to comply with Continuing Disclosure Certificate shall not be considered an Event of Default under this Trust Agreement; provided, however, the obligations of the City to comply with the provisions of the Continuing Disclosure Certificate shall be enforceable by any Holder of Outstanding Bonds. The Holders' and Trustee's rights to enforce the provisions of the Continuing Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under the Continuing Disclosure Certificate. Notwithstanding the foregoing, the City shall be entitled to amend or rescind the Continuing Disclosure Certificate to the extent permitted by law.

## ARTICLE IX

### INVESTMENTS

**Section 9.01. Investments Authorized.** Money held by the Trustee in any fund or account hereunder shall be invested by the Trustee in Permitted Investments pending application as provided herein solely at the prior written direction of an Authorized City Representative, shall be registered in the name of the Trustee where applicable, as Trustee, and shall be held by the Trustee. The City shall direct the Trustee prior to 12:00 p.m. Pacific time on the last Business Day before the date on which a Permitted Investment matures or is redeemed as to the reinvestment of the proceeds thereof. In the absence of such direction, the Trustee shall invest in investments authorized under clause (4) contained in the definition of "Permitted Investments." The Trustee may rely on the City's certification in such investment instructions that such investments are permitted by law and by any policy guidelines promulgated by the City. Money held in any fund or account hereunder may be commingled for purposes of investment only.

The Trustee may, with the prior written approval of the City, purchase from or sell to itself or any affiliate, as principal or agent, investments authorized by this Section 9.01. Any investments and reinvestments shall be made after giving full consideration to the time at which funds are required to be available hereunder and to the highest yield practicably obtainable giving due regard to the safety of such funds and the date upon which such funds will be required for the uses and purposes required by this Trust Agreement. The Trustee or any of its affiliates may act as agent in the making or disposing of any investment and may act as sponsor or advisor with respect to any Permitted Investment.

**Section 9.02. Reports.** The Trustee shall furnish monthly to the City a report of all investments made by the Trustee and of all amounts on deposit in each fund and account maintained hereunder. In addition to any activity reports customarily provided by the Trustee, there shall be provided to the City a consolidated balance sheet and a statement of changes in fund balances in such form as shall be agreed to by the City. All reports shall be delivered to the City within ten (10) business days following the close of each calendar month.

**Section 9.03. Valuation and Disposition of Investments.** For the purpose of determining the amount in any fund or account hereunder, all Permitted Investments shall be valued at the market value thereof not later than July 1 of each year. With the prior written approval of the City, the Trustee may sell at the best price obtainable any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide money to meet any required payment, transfer, withdrawal or disbursement from any fund or account hereunder, and the Trustee shall not be liable or responsible for any loss

resulting from such investment or sale, except any loss resulting from its own negligence or willful misconduct.

**Section 9.04. Application of Investment Earnings.** Investments in any Fund or Account shall be deemed at all times to be a part of such Fund or Account, and any profit realized from such investment shall be credited to such Fund or Account and any loss resulting from such investment shall be charged to such Fund or Account. Interest earnings on investments in any Fund or Account shall be deposited in the Bond Interest Account of the Revenue Fund.

## ARTICLE X

### DEFEASANCE

**Section 10.01. Discharge of Bonds; Release of Trust Agreement.** Bonds or portions thereof (such portions to be in an Authorized Denomination) which have been paid in full or which are deemed to have been paid in full shall no longer be entitled to the benefits of this Trust Agreement except for the purposes of payment from moneys, Federal Securities or Pre-refunded Municipals. When all Bonds which have been issued under this Trust Agreement have been paid in full or are deemed to have been paid in full, and all other sums payable hereunder by the City, including all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agents, have been paid or are duly provided for, then the Trustee shall cancel, discharge and release this Trust Agreement, shall execute, acknowledge and deliver to the City such instruments of satisfaction and discharge or release as shall be requisite to evidence such release and such satisfaction and discharge and shall assign and deliver to the City any amounts at the time subject to this Trust Agreement which may then be in the Trustee's possession, except funds or securities in which such funds are invested and held by the Trustee or the Paying Agents for the payment of the principal of and interest on the Bonds.

#### **Section 10.02. Bonds Deemed Paid.**

(a) A Bond shall be deemed to be paid within the meaning of this Article X and for all purposes of this Trust Agreement when (i) payment with respect thereto of the principal and interest either (1) shall have been made or caused to be made in accordance with the terms of the Bonds and this Trust Agreement or (2) shall have been provided for, as certified to the Trustee by an independent certified public accountant, by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment: (x) moneys sufficient to make such payment, and/or (y) non-callable Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment and/or (z) Pre-refunded Municipals, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, and (ii) all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or provision made for the payment thereof. At such times as Bonds shall be deemed to be paid hereunder, such Bonds shall no longer be secured by or entitled to the benefits of this Trust Agreement, except for the purposes of payment from such moneys, Federal Securities or Pre-refunded Municipals.

(b) Notwithstanding the foregoing paragraph, no deposit under clause (i)(2) of the immediately preceding paragraph shall be deemed a payment of such Bonds until (i) proper notice of defeasance of such Bonds shall have been given in accordance with Section 10.03 hereof, that the deposit required by clause (i)(2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Article X and stating the maturity of such Bonds.



**Section 10.03. Notices to Trustee; Notices to Bondholders; Notices to DTC.**

(a) The Trustee shall give notice of defeasance to Bondholders affected by such defeasance as provided herein and the Trustee shall promptly send such notice of defeasance by Mail (or, with respect to Bonds held by DTC, by facsimile transmission or an express delivery service for delivery on the next following Business Day) to each Bondholder of a Bonds to be defeased at such Bondholder's registered address. Such notice shall include a statement that such Bonds are deemed to have been paid in accordance with Article X hereof and stating the maturity of such Bonds.

(b) In addition to the notice described in Section 10.03(a), on the same day as the date of the mailing required by Section 10.03(a), such defeasance notice shall be given by (i) registered or certified mail, postage prepaid, (ii) telephonically confirmed facsimile transmission or (iii) overnight delivery service, to each of the Securities Depositories.

On the date of the mailing required by Section 10.03(a), if any Bonds are at such time not Book-Entry Bonds, such defeasance notice shall be given by (i) registered or certified mail, postage prepaid or (ii) overnight delivery service, to one of the Information Services selected by the City and at the address provided by the City.

(c) Neither the failure of a Bondholder to receive a notice described in this Section 10.03 nor any defect therein shall in any manner affect the defeasance of any Bonds. Any notice sent as provided herein will be conclusively presumed to have been given whether or not actually received by the addressee.

**ARTICLE XI**

**DEFAULTS AND REMEDIES**

**Section 11.01. Events of Default.** Each of the following events shall constitute and is referred to in this Trust Agreement as an "**Event of Default**":

(a) a failure to pay the principal on any of the Bonds when the same shall become due and payable;

(b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;

(c) a failure by the City to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a) and (b) of this Section 11.01) contained in the Bonds or in this Trust Agreement on the part of the City to be observed or performed, which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the City by the Trustee; provided, however, that the Trustee shall be deemed to have agreed to an extension of such period if corrective action is initiated by the City within such period and is being diligently pursued; or

(d) if the City files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself.

Upon an Event of Default under Section 11.01 (a) or (b), or a failure to make any other payment required under this Trust Agreement within 7 days after the same becomes due and payable, the Trustee shall immediately give written notice thereof to the City. The Trustee shall give notice under Section 11.01 (c) or (d) when instructed to do so by the written direction of the any Fiduciary or the Holders of at least 25% in principal amount of the Outstanding Bonds.

**Section 11.02. Remedies.**

(a) Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and shall upon the written direction of the holders of a majority in aggregate principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, in its own name and as the Trustee of an express trust:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders hereunder, as the case may be, and require the City to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Law or any other law to which it is subject and this Trust Agreement; provided that any such remedy may be taken only to the extent permitted under the applicable provisions of this Trust Agreement;

(2) bring suit upon the defaulted Bonds;

(3) commence an action or suit in equity to require the City to account as if it were the trustee of an express trust for the Bondholders; or

(4) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders hereunder.

(b) The Trustee shall be under no obligation to take any action with respect to any Event of Default unless the Trustee has, except for a payment default under Section 11.01(a) or (b), received written notice of the occurrence of such Event of Default.

**Section 11.03. Restoration to Former Position.** In the event that any proceeding taken by the Trustee to enforce any right under this Trust Agreement shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the City, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

**Section 11.04. Bondholders' Right to Direct Proceedings on their Behalf.** Anything in this Trust Agreement to the contrary notwithstanding, holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings on their behalf available to the Trustee under this Trust Agreement to be taken in connection with the enforcement of the terms of this Trust Agreement or exercising any trust or power conferred on the Trustee by this Trust Agreement; provided that such direction shall not be otherwise than in accordance with the provisions of the law and this Trust Agreement and that there shall have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee; provided further that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

**Section 11.05. Limitation on Bondholders' Rights to Institute Proceedings.** No Bondholder of any Bond shall have the right to institute any suit, action or proceeding at law in equity, for the protection or enforcement of any right or remedy under this Trust Agreement, or applicable law with respect to such Bond, unless (a) such Bondholder shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Bondholders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers heretofore granted or to institute such suit, action or proceeding in its own name; (c) such Bondholder or said Bondholders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or failed to comply with such request for a period of 60 days after such written request shall have been received by and said tender of indemnity shall have been made to, the Trustee and (e) the Trustee shall not have received contrary directions from the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding.

**Section 11.06. No Impairment of Right to Enforce Payment.** Notwithstanding any other provision in this Trust Agreement, the right of any Bondholder to receive payment of the principal of and interest on such Holder's Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective date, shall not be impaired or affected without the consent of such Bondholder.

**Section 11.07. Proceedings by Trustee Without Possession of Bonds.** All rights of action under this Trust Agreement or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Bondholders, as the case may be, subject to the provisions of this Trust Agreement.

**Section 11.08. No Remedy Exclusive.** No remedy herein conferred upon or reserved to the Trustee or to Bondholders is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity or by statute; provided, however, that any conditions set forth herein to the taking of any remedy to enforce the provisions of this Trust Agreement or the Bonds shall also be conditions to seeking any remedies under any of the foregoing pursuant to this Section 11.08.

**Section 11.09. No Waiver of Remedies.** No delay or omission of the Trustee or of any Bondholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein and every power and remedy given by this Article XI to the Trustee and to the Bondholders, respectively, may be exercised from time to time and as often as may be deemed expedient.

**Section 11.10. Application of Moneys.**

(a) Any moneys received by the Trustee for the benefit of Bondholders, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of this Article XI, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (including without limitation reasonable fees and reasonable expenses of its attorneys), shall be deposited in the Revenue Fund and all moneys so deposited in the Revenue Fund during the continuance of an Event of Default shall be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, as the case may be, in the order of maturity of the installments of such interest (if the amount

available for such interest installments shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment), and if the amount available for such interest shall not be sufficient to make payment thereof, then to the payment thereof ratably according to the respective aggregate amounts due and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due with interest on such Bonds at their respective rate or yield from the respective dates upon which they became due (if the amount available for such unpaid principal and interest shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege among holders of Bonds), and, if the amount available for such principal and interest shall not be sufficient to make full payment thereof, then to the payment thereof ratably according to the respective aggregate amounts due.

(b) Whenever moneys are to be applied pursuant to the provisions of this Section 11.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and shall not be required to make payment to any Bondholder until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

**Section 11.11. Severability of Remedies.** It is the purpose and intention of this Article XI to provide rights and remedies to the Trustee and the Bondholders which may be lawfully granted under the provisions of applicable law, but should any right or remedy herein granted be held to be unlawful, the Trustee and the Bondholders shall be entitled, as above set forth, to every other right and remedy provided in this Trust Agreement and by applicable law.

## ARTICLE XII

### TRUSTEE; REGISTRAR

**Section 12.01. Acceptance of Trusts.** The Trustee hereby accepts and agrees to execute the trusts specifically imposed upon it by this Trust Agreement, but only upon the additional terms set forth in this Article XII, to all of which the City agrees and the respective Bondholders agree by their acceptance of delivery of any of the Bonds.

**Section 12.02. Duties of Trustee.**

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Trustee need perform only those duties that are specifically set forth in this Trust Agreement and no others; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Trust Agreement. However, the Trustee shall examine the certificates and opinions to determine whether they conform to the procedural requirements of this Trust Agreement.

(c) The Trustee may not be relieved from liability for its own negligence or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section 12.02;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless the Trustee was negligent in ascertaining the pertinent facts or exercising its judgment;

(iii) the Trustee shall not be liable with respect to any action it takes or fails to take in good faith in accordance with a direction received by it from Bondholders or the City in the manner provided in this Trust Agreement; and

(iv) no provision of this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Every provision of this Trust Agreement that in any way relates to the Trustee is subject to all the paragraphs of this Section 12.02.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity reasonably satisfactory to it against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any cash held by it except as the Trustee may agree in writing with the City.

**Section 12.03. Rights of Trustee.**

(a) The recitals of facts contained herein and in the Bonds shall be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of this Trust Agreement or of the Bonds or of any Permitted Investment and shall not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly assigned to or imposed upon it herein or in the Bonds. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence, or willful misconduct. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Bondholder of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under this Trust Agreement.

(b) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the opinion of such counsel shall be authorization for any action taken or not taken in reliance on such opinion, but the Trustee shall be responsible for the negligence or misconduct of any such attorney, agent or receiver selected by it.

(c) No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(d) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(e) The Trustee shall not be responsible for the application or handling by the City of any moneys transferred to or pursuant to any requisition or request of the City in accordance with the terms and conditions hereof.

(f) Whether or not therein expressly so provided, every provision of this Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article XII.

(g) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

**Section 12.04. Individual Rights of Trustee.** The Trustee in its individual or any other capacity may become the Bondholder or pledgee of Bonds and may otherwise deal with the City with the same rights it would have if it were not Trustee. Any Paying Agent or other agent may do the same with like rights.

**Section 12.05. Trustee's Disclaimer.** The Trustee makes no representations as to the validity or adequacy of this Trust Agreement or the Bonds, it shall not be accountable for the City's use of the proceeds from the Bonds paid to the City and it shall not be responsible for any statement in any official statement or other disclosure document or in the Bonds other than its certificate of authentication.

**Section 12.06. Notice of Defaults.** If an event occurs which with the giving of notice or lapse of time or both would be an Event of Default, and if the event is continuing and if it is actually known to the Trustee, the Trustee shall mail to each Bondholder notice of the event within 90 days after it occurs. Except in the case of a default in payment or purchase on any Bonds, the Trustee may withhold the notice to Bondholders if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

**Section 12.07. Compensation of Trustee.**

(a) The City shall from time to time, but only in accordance with a written agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its reasonable advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents

and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. The Trustee shall not otherwise have any claims or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder, except from amounts in the Administrative Costs Fund and as provided in Section 11.10, but may take whatever legal actions are lawfully available to it directly against the City. The agreement contained in this Section 12.07 shall survive the payment of the Bonds, the discharge of this Trust Agreement and the appointment of a successor trustee.

(b) Notwithstanding Section 12.07(a), the City has no obligation to pay the Trustee compensation for its services (exclusive of advances and expenditures) in excess of \$7,500.00 in any Fiscal Year, except in accordance with a written agreement, signed by the City, expressly waiving the provisions of this Section 12.07(b). The limitation provided in this Section 12.07(b) will not apply after the occurrence and during the continuation of an Event of Default.

**Section 12.08. Eligibility of Trustee.** This Trust Agreement shall always have a Trustee that is a trust company or a bank having trust powers and is organized and doing business under the laws of the United States or any state or the District of Columbia, is subject to supervision or examination by United States, state or District of Columbia authority and has a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition.

**Section 12.09. Replacement of Trustee.**

(a) The Trustee may resign as trustee hereunder by notifying the City in writing prior to the proposed effective date of the resignation. The holders of a majority in aggregate principal amount of the Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the City's consent. The City may remove the Trustee, by notice in writing delivered to the Trustee 30 days prior to the proposed removal date; provided, however, that the City shall have no right to remove the Trustee during any time when an Event of Default has occurred and is continuing unless (i) the Trustee fails to comply with the foregoing Section, (ii) the Trustee is adjudged a bankrupt or an insolvent, (iii) the Trustee otherwise becomes incapable of acting or (iv) the City determines that the Trustee's services are no longer satisfactory to the City consents to such removal. No resignation or removal of the Trustee under this Section shall be effective until a new Trustee has taken office. If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under this Trust Agreement, the City shall promptly appoint a successor Trustee.

(b) A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the City. Immediately thereafter, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee shall then (but only then) become effective and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Trust Agreement. If a Trustee is not performing its duties hereunder and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the City delivers notice of removal, the retiring Trustee, the City or the holders of a majority in aggregate principal amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

**Section 12.10. Successor Trustee or Agent by Merger.** If the Trustee, any Paying Agent or Registrar consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust business) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, Paying Agent or Registrar.

**Section 12.11. Registrar.** The City shall appoint the Registrar for the Bonds and may from time to time remove a Registrar and name a replacement upon notice to the Trustee. The City hereby appoints the Trustee as Registrar. Each Registrar, if other than the Trustee, shall designate to the Trustee, the Paying Agent, and the City its principal office and signify its acceptance of the duties imposed upon it hereunder by a written instrument of acceptance delivered to the City and the Trustee under which such Registrar will agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee, and the Paying Agent at all reasonable times.

**Section 12.12. Other Agents.** The City or the Trustee may from time to time appoint other agents to perform duties and obligations under this Trust Agreement which agents may include, but not be limited to, authenticating agents all as provided by resolution of the City.

**Section 12.13. Several Capacities.** Anything in this Trust Agreement to the contrary notwithstanding, the same entity may serve hereunder as the Trustee, Registrar and any other agent as appointed to perform duties or obligations under this Trust Agreement or an escrow agreement, or in any combination of such capacities, to the extent permitted by law.

**Section 12.14. Accounting Records and Reports of Trustee.**

(a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all Funds and Accounts established pursuant to this Trust Agreement and held by the Trustee. Such books of record and account shall be available for inspection by the City and any Bondholder, or his agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances.

(b) The Trustee shall file and furnish to the City and to each Bondholder who shall have filed his name and address with the Trustee for such purpose (at such Bondholder's cost), on an annual basis (or, with respect to the City, such other interval that the City may request), a complete financial statement (which may be its regular account statements and which need not be audited) covering receipts, disbursements, allocation and application of moneys in any of the funds and accounts established pursuant to this Trust Agreement for the preceding year.

**Section 12.15. No Remedy Exclusive.** No remedy herein conferred upon or reserved to the City is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity or by statute.

### ARTICLE XIII

#### MODIFICATION OF THIS TRUST AGREEMENT

**Section 13.01. Limitations.** This Trust Agreement shall not be modified or amended in any respect subsequent to the first delivery of fully executed and authenticated Bonds except as provided in and in accordance with and subject to the provisions of this Article XIII.



**Section 13.02. Supplemental Agreements Not Requiring Consent of Bondholders.**

(a) The City may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver supplemental agreements supplementing and/or amending this Trust Agreement as follows:

(i) to cure any formal defect, omission, inconsistency or ambiguity in this Trust Agreement;

(ii) to add to the covenants and agreements of the City in this Trust Agreement other covenants and agreements, or to surrender any right or power reserved or conferred upon the City, and which shall not adversely affect the interests of the Bondholders;

(iii) to confirm, as further assurance, any interest of the Trustee in and to the Funds and Accounts held by the Trustee or in and to any other moneys, securities or funds of the City provided pursuant to this Trust Agreement or to otherwise add security for the Bondholders;

(iv) to comply with the requirements of the Trust Agreement Act of 1939, as from time to time amended;

(v) to modify, alter, amend or supplement this Trust Agreement in any other respect which, in the judgment of the City, is not materially adverse to the Bondholders; and

(vi) to qualify the Bonds for a rating or ratings by any Rating Agency.

(b) Before the City or Trustee shall, pursuant to this Section 13.02, execute any supplemental agreement there shall have been delivered to the City and the Trustee an opinion of Bond Counsel to the effect that such supplemental agreement (i) is authorized or permitted by this Trust Agreement and the Law, and (ii) will, upon the execution and delivery thereof, be valid and binding upon the City enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles).

**Section 13.03. Supplemental Agreement Requiring Consent of Bondholders.**

(a) Except for any supplemental agreement entered into pursuant to Section 13.02, the holders of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right from time to time to consent to and approve the execution by the City of any supplemental agreement deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Trust Agreement or in a supplemental agreement; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding, nothing contained herein shall permit or be construed as permitting (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bonds or (ii) a reduction in the principal amount of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained herein, including the provisions of Section 13.03(b) below, shall, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (1) a preference or priority of any Bond or Bonds over any other Bond or Bonds or (2) a reduction in the aggregate principal amount of Bonds the consent of the Bondholders of which is

required for any such supplemental agreement. Nothing herein contained, however, shall be construed as making necessary the approval by Bondholders of the execution of any supplemental agreement as authorized in Section 13.02.

(b) If at any time the City shall desire to enter into any supplemental agreement for any of the purposes of this Section 13.03, the City shall cause notice of the proposed execution of the supplemental agreement to be given by Mail to all Bondholders. Such notice shall briefly set forth the nature of the proposed supplemental agreement and shall state that a copy thereof is on file at the office of the City for inspection by all Bondholders.

(c) Within two weeks after the date of the mailing of such notice, the City may execute and deliver such supplemental agreement in substantially the form described in such notice, but only if there shall have first been delivered to the City (i) the required consents, in writing, of Bondholders and (ii) an opinion of Bond Counsel stating that such supplemental agreement is authorized or permitted by this Trust Agreement and other applicable law, complies with their respective terms and, upon the execution and delivery thereof, will be valid and binding upon the City enforceable in accordance with its terms.

(d) If Bondholders of not less than the percentage of Bonds required by this Section 13.03 shall have consented to and approved the execution and delivery thereof as herein provided, no Bondholders shall have any right to object to the adoption of such supplemental agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the City from executing the same or from taking any action pursuant to the provisions thereof.

**Section 13.04. Effect of Supplemental Agreements.** Upon execution and delivery of any supplemental agreement pursuant to the provisions of this Article XIII, this Trust Agreement and all supplemental agreements shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Trust Agreement and all supplemental agreements of the City, the Trustee, the Registrar, any Paying Agent and all Bondholders shall thereafter be determined, exercised and enforced under this Trust Agreement and all supplemental agreements, subject in all respects to such modifications and amendments.

**Section 13.05. Supplemental Agreements to be Part of this Trust Agreement.** Any supplemental agreement adopted in accordance with the provisions of this Article XIII shall thereafter form a part of this Trust Agreement or the supplemental agreement which they supplement or amend, and all of the terms and conditions contained in any such supplemental agreement as to any provision authorized to be contained therein shall be and shall be deemed to be part of the terms and conditions of this Trust Agreement which they supplement or amend for any and all purposes.

## ARTICLE XIV

### MISCELLANEOUS PROVISIONS

**Section 14.01. Parties in Interest.** Except as herein otherwise specifically provided, nothing in this Trust Agreement expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the City, the Paying Agent, the Trustee and the Bondholders any right, remedy or claim under or by reason of this Trust Agreement, this Trust Agreement being intended to be for the sole and exclusive benefit of the City, the Paying Agent, the Trustee and the Bondholders.

**Section 14.02. Severability.** In case any one or more of the provisions of this Trust Agreement, or of any Bonds issued hereunder shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Trust Agreement or of Bonds, and this Trust Agreement and any Bonds issued hereunder shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

**Section 14.03. No Personal Liability of City Officials; Limited Liability of City to Bondholders.**

(a) No covenant or agreement contained in the Bonds or in this Trust Agreement shall be deemed to be the covenant or agreement of any present or future official, officer, agent or employee of the City in his individual capacity, and neither the members of the City Council of the City nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

(b) Except for the payment when due of the payments and the observance and performance of the other agreements, conditions, covenants and terms required to be performed by it contained in this Trust Agreement, the City shall not have any obligation or liability to the Bondholders with respect to this Trust Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Bonds or the receipt, deposit or disbursement of the payments by the Trustee, or with respect to the performance by the Trustee of any obligation required to be performed by it contained in this Trust Agreement.

**Section 14.04. Execution of Instruments; Proof of Ownership.**

(a) Any request, direction, consent or other instrument in writing required or permitted by this Trust Agreement to be signed or executed by Bondholders or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the Bonds. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Trust Agreement and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(i) the fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution; and

(ii) the ownership of Bonds shall be proved by the registration books kept under the provisions of Section 3.01 hereof;

(b) Nothing contained in this Section 14.04 shall be construed as limiting the Trustee to such proof. The Trustee may accept any other evidence of matters herein stated which it may deem sufficient. Any request, consent of, or assignment by any Bondholder shall bind every future Bondholder of the same Bonds or any Bonds issued in lieu thereof in respect of anything done by the Trustee or the City in pursuance of such request or consent.

**Section 14.05. Governing Law; Venue.** This Trust Agreement shall be interpreted, governed and enforced in accordance with the laws of the State of California. If any party to this Trust Agreement initiates any legal or equitable action to enforce the terms of this Trust Agreement, to declare the rights of

the parties under this Trust Agreement or which relates to this Trust Agreement in any manner, each such party agrees that the place of making and for performance of this Trust Agreement shall be Los Angeles County, State of California, and the proper venue for any such action is the Superior Court of the State of California, in and for the County of Los Angeles.

**Section 14.06. Notices.**

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Trust Agreement or the Bonds must be in writing except as expressly provided otherwise in this Trust Agreement or the Bonds.

(b) The Trustee shall give written notice to the Rating Agencies if at any time (i) a successor Trustee is appointed under this Trust Agreement, (ii) there is any amendment to this Trust Agreement, (iii) notice of any defeasance of the Bonds, or (iv) if the Bonds shall no longer be Book-Entry Bonds. Notice in the case of an event referred to in clause (ii) hereof shall include a copy of any such amendment.

(c) Except as otherwise required herein, all notices required or authorized to be given to the City, the Trustee and Paying Agent and the Rating Agencies pursuant to this Trust Agreement shall be in writing and shall be sent by registered or certified mail, postage prepaid, to the following addresses:

1. to the City, to:

City of Manhattan Beach  
1400 Highland Avenue  
Manhattan Beach, California 90266  
Attention: Finance Director  
Telephone: (310) 802-5552  
Facsimile: (310) 802-5001

with a copy to:

City of Manhattan Beach  
1400 Highland Avenue  
Manhattan Beach, California 90266  
Attention: City Attorney  
Telephone: (310) 802-5061  
Facsimile: (310) 802-5251

2. to the Trustee and Paying Agent, to:

U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, California 90017  
Attention: Corporate Trust Department  
Telephone: (213) 615-6023  
Facsimile: (213) 615-6197

or to such other addresses as may from time to time be furnished by a party to the parties, effective upon the receipt of notice thereof given as set forth above.

**Section 14.07. Holidays.** If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Trust Agreement, shall not be a Business Day, such payment may, unless otherwise provided in this Trust Agreement be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Trust Agreement, and no interest shall accrue for the period from and after such nominal date.

**Section 14.08. Captions.** The captions and table of contents in this Trust Agreement are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Trust Agreement.

**Section 14.09. Counterparts.** This Trust Agreement may be signed in several counterparts, each of which will be a original, but all of them together constitute the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Trust Agreement by their officers thereunto duly authorized as of the date first above written.

**CITY OF MANHATTAN BEACH**

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

Attest:

By: \_\_\_\_\_  
City Clerk

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

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

**EXHIBIT A**  
**[FORM OF BOND]**

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

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

**CITY OF MANHATTAN BEACH**  
**TAXABLE PENSION OBLIGATION BONDS,**  
**SERIES 2007**

Neither the faith and credit nor the taxing power of the State of California or any public agency, including the City of Manhattan Beach, is pledged to the payment of the principal of, or interest on, this Bond.

<i>Maturity Date</i>	<i>Interest Rate Per Annum</i>	<i>Dated Date</i>	<i>CUSIP NO.</i>	<i>ISIN NO.</i>
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%

REGISTERED BONDHOLDER: CEDE & CO.

PRINCIPAL AMOUNT:

**THE CITY OF MANHATTAN BEACH**, a general law city of the State of California, for value received, hereby promises to pay to the registered Bondholder named above or registered assigns, on the maturity date specified above, the principal amount specified above together with interest on such principal amount at the interest rate set forth above on each Interest Payment Date (hereinafter defined) from the Interest Payment Date next preceding the date of authentication and delivery thereof, unless (i) it is authenticated after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest thereon shall be payable from such Interest Payment Date; or (ii) it is authenticated prior to the close of business on the first Record Date, in which event interest thereon shall be payable from \_\_\_\_\_; provided, however, that if at the time of authentication of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from \_\_\_\_\_. The principal hereof is payable when due upon presentation hereof at the Principal Office of the Trustee, U.S. Bank National Association, as trustee (together with any successor as trustee under the Trust Agreement (hereinafter defined), the “Trustee”), in lawful money of the United States of America.

This Bond is one of a duly authorized issue of City of Manhattan Beach Taxable Pension Obligation Bonds, Series 2007 (the “Bonds”) of the designation indicated on the face hereof. Said authorized issue of Bonds is limited in aggregate principal amount as provided in the Trust Agreement and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as provided in the Trust Agreement, all issued and to be issued pursuant to the

provisions of Section 53570 et seq. of the California Government Code (the "Law"). This Bond is issued pursuant to the Trust Agreement dated as of March 1, 2007 by and between the City of Manhattan Beach (the "City") and the Trustee, providing for the issuance of the Bonds and setting forth the terms and authorizing the issuance of the Bonds (said Trust Agreement as amended, supplemented or otherwise modified from time to time being the "**Trust Agreement**"). Reference is hereby made to the Trust Agreement and to the Law for a description of the terms on which the Bonds are issued and to be issued, and the rights of the registered Bondholders of the Bonds; and all the terms of the Trust Agreement and the Law are hereby incorporated herein and constitute a contract between the City and the registered Bondholder from time to time of this Bond, and to all the provisions thereof the registered Bondholder of this Bond, by its acceptance hereof, consents and agrees. All capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Trust Agreement.

The City is required under the Trust Agreement to make payments on the Bonds from any source of legally available funds. The City has covenanted to make the necessary annual appropriations for such purpose.

The obligation of the City to make payments on the Bonds does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

This Bond is one of the Bonds described in the Trust Agreement.

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

The Bonds are not subject to redemption prior to maturity.

The rights and obligations of the City and of the holders and registered Bondholders of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Trust Agreement, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered Bondholders of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Trust Agreement or the Law.

This Bond shall not be entitled to any benefit under the Trust Agreement, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.



**IN WITNESS WHEREOF, THE CITY OF MANHATTAN BEACH**, a general law city of the State of California, has caused this Bond to be executed in its name and on its behalf by the City Manager, and this Bond to be dated as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**CITY OF MANHATTAN BEACH**

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

**[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]**

This is one of the Bonds described in the within-mentioned Trust Agreement and authenticated the date set forth below.

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

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

By: \_\_\_\_\_  
Authorized Signatory

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ (Tax I.D. No.: \_\_\_\_\_) the within Bond and hereby irrevocably constitute and appoints \_\_\_\_\_ attorney, to transfer the same on the books of the Registrar at the office of the Trustee, with full power of substitution in the premises.

NOTE: The signature to this Assignment must correspond with the name on the face of the within Registered Bond in every particular, without alteration or enlargement or any change whatsoever.

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

Signature Guaranteed by:

NOTE: Signature must be guaranteed by an eligible guarantor institution.

**EXHIBIT "B-1"**

**[FORM OF REQUISITION]**

**\$(Par Amount)  
CITY OF MANHATTAN BEACH  
TAXABLE PENSION OBLIGATION BONDS,  
Series 2007**

**REQUISITION**

TO: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, CA 90071  
Attention: Fonda J. Hall,

City of Manhattan Beach Use Only  
Request No. \_\_

You are hereby requested to pay from the Costs of Issuance Fund established by the Trust Agreement with respect to the above-referenced Bonds, to the persons, corporations or other entities designated in Schedule I hereto, the sum set forth therein, in payment of the Costs of Issuance described in Schedule I hereto. Such amounts shall be paid upon receipt of an invoice from each payee.

The undersigned hereby certifies that:

- (i) he is an Authorized City Representative;
- (ii) this requisition for payment is in accordance with the terms and provisions of Section 6.01 of the Trust Agreement;
- (iii) each item to be paid with the requisitioned funds represents either incurred or due and payable Costs of Issuance;
- (iv) such Costs of Issuance have not been paid from other funds withdrawn from the Costs of Issuance Fund; and
- (v) to the best of the signatory's knowledge no Event of Default has occurred and is continuing under the Trust Agreement.

All capitalized terms used but not defined herein shall have the meanings set forth in the Trust Agreement.

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

CITY OF MANHATTAN BEACH

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

Title: \_\_\_\_\_

**EXHIBIT "B-2"**

**[FORM OF REQUISITION]**

**\$(Par Amount)  
CITY OF MANHATTAN BEACH  
TAXABLE PENSION OBLIGATION BONDS,  
Series 2007**

**REQUISITION**

TO: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, CA 90071  
Attention: Fonda J. Hall,

City of Manhattan Beach Use Only  
Request No. \_\_

You are hereby requested to pay from the Administrative Costs Fund established by the Trust Agreement with respect to the above-referenced Bonds, to the persons, corporations or other entities designated in Schedule I hereto, the sum set forth therein, in payment of the Administrative Costs described in Schedule I hereto. Such amounts shall be paid upon receipt of an invoice from each payee.

The undersigned hereby certifies that:

- (i) s/he is an Authorized City Representative;
- (ii) this requisition for payment is in accordance with the terms and provisions of Section 6.03 of the Trust Agreement;
- (iii) each item to be paid with the requisitioned funds represents either incurred or due and payable Administrative Costs; and
- (iv) such Administrative Costs have not been paid from other funds withdrawn from the Administrative Costs Fund.

All capitalized terms used but not defined herein shall have the meanings set forth in the Trust Agreement.

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

CITY OF MANHATTAN BEACH

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

Title: \_\_\_\_\_