



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: December 5, 2006

SUBJECT: Consideration of the Finance Subcommittee Recommendation to Issue Pension Obligation Bonds for the Fixed Unfunded Liabilities in the Police and Fire Department Retirement Plans with CalPERS

RECOMMENDATION:

The Finance Subcommittee and staff recommend that the City Council: a) approve the issuance of pension obligation bonds; b) adopt resolution No. 6075, which includes approval of the Trust Agreement, and c) authorize a validation action through Superior Court.

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 \$361,425 by issuing these bonds, net of the issuance costs.

BACKGROUND:

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 January 1, 2007 levels):

<u>Department</u>	<u>Unfunded Liabilities</u>
Police	\$4,425,542
Fire	<u>\$2,097,635</u>
Total	\$6,523,177

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 rate of return exceeded the 7.75% assumed rate, 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, indicates that under current market assumptions, we can realize present value savings of approximately \$361,425 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 5.5%) compared to PERS' rates (7.75%).

If we choose to issue pension obligation bonds (POB's), we have two options: we can utilize our own financing team that we have used for Police/Fire, Metlox and the Utility Underground districts, or we can utilize the League of California Cities' (LCC) program which pools pension obligation issuers. While the pooled approach would seem more cost effective, it is actually more expensive (for us) for one main reason: the pooled POB's require insurance in order to market the issue which adds approximately 20 basis points to the cost of issuance¹. With our natural Triple-A rating, we will not need insurance on a stand-alone POB. Additionally, because we are a natural Triple-A city, we will enjoy slightly better interest rates even without insurance when compared to an insured bond sale. Finally, staff would prefer to work with our own team due to their familiarity with our City and our requirements. As a result, we recommended, and the Finance Subcommittee concurred, that using our existing team for POB's makes the most sense.

The Finance Subcommittee discussed and approved this action at their October 30, 2006 meeting.

¹ Insurance is required to market the bonds at an effective rate since the rest of the issuers in the pool most likely do not carry our credit high rating.

Process:

Prior to selling the bonds, the market for POB's dictates that the City file a validation action in Superior Court. Validation actions are a way of obtaining prior court approval for a bond issue (other matters, such as the formation of a new city or district, may also be validated) in order to insure the highest possible rating, best available interest rate and greatest marketability.

The validation process involves filing a legal action requesting the court's validation of the offering. While, as a matter of general law, "advisory opinions" may not be sought from the courts unless an actual case or controversy exists, the legislature has created an exception to this rule by passing Code of Civil Procedure sections 860 et seq. which permit a court to issue such an opinion in a limited scope of cases. Once the court issues a judgment and the judgment becomes final the POB's are immunized from legal challenge.

We anticipate the court proceedings and appeal period will be completed by early March 2007, at which time the bonds may be issued. At this time, we are seeking Council approval to proceed with the process. After we receive the court's ruling, we will come back to Council for approval of the necessary documents to proceed with the sale of the bonds (e.g. the Official Statement, Purchase Agreement, etc.).

Attachments: A) Resolution No. 6075
B) Trust Agreement (Draft)

RESOLUTION NO. 6075

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 AND AUTHORIZING A VALIDATION ACTION 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 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 Pension Obligations are included in one or more risk pools; and

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

WHEREAS, there is on file with the City Council the proposed form of Trust Agreement (the "Trust Agreement") to be entered into between the City and U.S. Bank National Association, as trustee (the "Trustee"), relating to the Pension Obligation Bonds, including the forms of Bonds attached thereto as an exhibit.

NOW, THEREFORE, BE IT 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 issuance of the Pension Obligation Bonds to refund the 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 authorizes and approves the issuance of the Pension Obligation Bonds and hereby authorizes and directs 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. The Pension Obligation Bonds shall be in substantially the forms 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. The initial issue of Pension Obligation Bonds will be issued as current interest fixed rate bonds; provided, however, that the aggregate initial principal amount of the Pension Obligation Bonds shall not exceed the amount of seven million dollars (\$7 million), such amount being calculated to equate to but not exceed the Pension Obligations (as confirmed by the System or the City's actuary) remaining unpaid on the 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 proposed form of Trust Agreement between the City and the Trustee, on file with the City Clerk, is hereby approved. The Mayor, the City Manager, and the Finance Director and their respective designees (collectively, the "Authorized Representatives") are each hereby authorized and directed, severally, for and on behalf of the City, to execute and deliver, and the City Clerk is hereby authorized and directed for and on behalf of the City to countersign or attest, the Trust Agreement, substantially in the form on file with the City Clerk, with such changes therein, deletions therefrom and additions thereto (including, but not limited to changes, deletions and additions as may be required by a municipal bond insurer) as such Authorized Representative shall approve, such approval to be conclusively evidenced by the execution and delivery of the Trust Agreement.

SECTION 4. This City Council hereby appoints Hawkins Delafield & Wood LLP ("Hawkins") as bond counsel and disclosure counsel for the Pension Obligation Bonds, with bond counsel and disclosure counsel services to consist of, and be limited to, rendering an opinion on the validity of the Pension Obligation Bonds and related supplemental and disclosure opinions and letters, the preparation of documents providing for the issuance of the Pension Obligation Bonds, the preliminary official statement and final official statement, including any supplements thereto, relating to the Pension Obligation Bonds, and the validation action relating to the Pension Obligation Bonds. This City Council also appoints Gardner, Underwood & Bacon LLC as the Financial Advisor and appoints UBS Securities LLC as the underwriter (the "Underwriter") for the purpose of such proceedings.

SECTION 5. The Authorized Representatives of the City are, and each of them hereby is, authorized and directed to do any and all things, including bringing a validation action under Section 860 of the California Code of Civil Procedure, and to take any and all actions (including any required publications of summons or other notice) and execute and deliver any and all documents which they or any of them deem necessary or advisable in order to consummate the transactions contemplated by this Resolution and the Trust Agreement and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the Trust Agreement, including supplying information for and approving any portion of any official statement or any future continuing disclosure for the Pension Obligation Bonds pertaining to the City and approving a bond purchase agreement between the City and the Underwriter, including any representations, warranties or covenants of the City contained therein.

SECTION 6. This Resolution shall take effect from and after its date of adoption.

SECTION 7. The City Clerk shall certify to the adoption of this Resolution and enter it into the original records of the City.

SECTION 8. 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 5th day of December 2006.

Ayes:
Noes:
Absent:
Abstain:

Mayor, City of Manhattan Beach, California

ATTEST:

City Clerk

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:

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

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 depositary 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: _____