

**RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:**

**STRADLING YOCCA CARLSON & RAUTH
500 Capitol Mall Suite 1120
Sacramento, CA 95814
Attn: Kevin Civalé**

[Space above for Recorder's use.]

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This Lease Agreement is recorded for the benefit
of the City of Manhattan Beach and the recording
is exempt under Section 27383 of the California
Government Code.

LEASE AGREEMENT

Dated as of December 1, 2021

by and between

**MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION,
as Lessor**

and

**CITY OF MANHATTAN BEACH,
as Lessee**

**\$ _____
City of Manhattan Beach
Refunding Certificates of Participation
Series 2021**

LEASE AGREEMENT

THIS LEASE AGREEMENT, dated as of December 1, 2021 (the “Lease”), by and between MANHATTAN BEACH CAPITAL IMPROVEMENTS CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, as lessor (the “Lessor”), and CITY OF MANHATTAN BEACH, a general law city duly organized and existing under the laws of the State of California, as lessee (the “Lessee”);

WITNESSETH:

WHEREAS, the Lessee will lease to the Lessor its fee interest in City Hall and the real property on which it is located (the “Leased Premises”) pursuant to a Site and Facilities Lease, dated as of December 1, 2021 (the “Site Lease”), by and between the Lessor and the Lessee, and the Lessor, concurrently with the execution of the Site Lease, will lease the Leased Premises back to the Lessee pursuant to this Lease, in consideration for lease payments equal to the principal and interest components coming due with respect to the City of Manhattan Beach Refunding Certificates of Participation Series 2021 (the “Certificates”); and

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1 **Definitions and Rules of Construction.** Unless the context otherwise requires, the capitalized terms used herein but not defined in this Lease shall, for all purposes of this Lease, have the meanings specified in the Trust Agreement, dated as of the date hereof, by and among U.S. Bank National Association, as trustee thereunder, the Lessor and the Lessee (the “Trust Agreement”), together with any amendments thereof or supplements thereto permitted to be made thereunder; and the additional terms defined in this Section shall, for all purposes of this Lease, have the meanings herein specified. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa. The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Lease, refer to this Lease as a whole.

“Leased Premises” means, from time to time, that certain real property comprising those parcels described on Exhibit B to this Lease.

Section 1.2 **Exhibits.** The following Exhibits are attached to, and by this reference incorporated into and made a part of, this Lease:

Exhibit A: Schedule of Lease Payments.

Exhibit B: Description of Leased Premises.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1 Representations, Covenants and Warranties of Lessee. The Lessee represents, covenants and warrants to the Lessor as follows:

(a) Due Organization and Existence. The Lessee is a general law city, duly organized and validly operating as such under the Constitution and laws of the State of California.

(b) Authorization, Enforceability. The Constitution and laws of the State authorize the Lessee to enter into this Lease, the Site Lease, the Continuing Disclosure Agreement and the Trust Agreement (collectively, the “Agreements”) and to enter into the transactions contemplated by and to carry out its obligations under all of the Agreements, and the Lessee has, concurrently with the execution hereof, duly authorized and executed all of the Agreements.

(c) No Defaults. Neither the execution and delivery of the Agreements, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrances whatsoever upon any of the property or assets of the Lessee.

(d) Execution and Delivery. The Lessee has taken all actions required to authorize and execute this Lease in accordance with the Constitution and laws of the State and all acts, conditions and things required by the Constitution and statutes of the State and the provisions of the Trust Agreement to exist, to have happened and to have been performed precedent to and in the execution and delivery of the Certificates, do exist, have happened and have been performed in due time, form and manner as required by law.

(e) No Material Encumbrances. No encumbrances on the Leased Premises will impair the pledge and assignment under Section 5.1 of the Trust Agreement.

(f) Essentiality of the Leased Premises. The portion of the Leased Premises constituting City Hall is essential to the operations of the Lessee.

Section 2.2 Representations, Covenants and Warranties of Lessor. The Lessor represents, covenants and warrants to the Lessee as follows:

(a) Due Organization and Existence; Enforceability. The Lessor is a nonprofit public benefit corporation duly organized, existing and in good standing under and by virtue of the laws of the State, and has the power to enter into this Lease, the Site Lease, the Assignment Agreement and the Trust Agreement (collectively, the “Lessor Documents”); is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of all of the aforesaid Lessor Documents.

(b) No Encumbrances. The Lessor will not pledge or assign the Lease Payments or other amounts derived from the lease of the Leased Premises and from its other rights under this

Lease except as provided in the Assignment Agreement, and except that the Lessor may create, assume or suffer to exist Permitted Encumbrances provided under the terms of the Lessor Documents.

(c) No Violations. Neither the execution and delivery of the Lessor Documents, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any agreement or instrument to which the Lessor is now a party or by which the Lessor is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Lessor, or upon the Leased Premises.

(d) No Assignment. Except as provided herein, in the Assignment Agreement and in the Trust Agreement, the Lessor will not assign this Lease, its right to receive Lease Payments from the Lessee, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this Section; provided, however, that Lessor shall have the absolute right to assign this Lease and its rights and obligations hereunder to any other such person, firm or corporation if the Lessor first obtains an opinion of Special Counsel to the effect that such assignment shall not cause the Interest Component to be subject to federal income taxation.

Section 2.3 Compliance with Law, Regulations, Etc.

The Lessee has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Leased Premises or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Leased Premises (collectively, "Laws and Regulations").

ARTICLE III

DEPOSIT OF MONEYS

Section 3.1 Deposit of Moneys. In order to induce the Lessee to lease the Leased Premises from the Lessor and to assure the Lessee that the moneys needed to refinance the 1996 Certificates and 2003 Certificates will be available for such purpose without delay, the Lessor shall, on the Closing Date, cause moneys to be deposited with the Trustee as provided in Section 2.7 of the Trust Agreement. All moneys held under the Trust Agreement shall be invested in accordance with the restrictions set forth in Section 8.2 thereof.

The Lessee has leased the Leased Premises to the Lessor in consideration in part, for the Lessor's cooperation in effecting the execution and delivery of the Certificates.

Amounts estimated to be required to pay costs for any project to be financed with proceeds of any Series of Additional Certificates shall be deposited in the Improvement Fund, or accounts therein, as set forth in the Supplemental Trust Agreement for such Series and estimated to be

required to pay Delivery Costs of any Series of Additional Certificates shall be deposited into the Delivery Costs Fund, or account therein, as set forth in the Supplemental Trust Agreement for such Series.

Section 3.2 Substitution of Alternate Leased Premises and Release of Leased Premises.

(a) The Lessee shall have the right to substitute alternate real property or improvements for the Leased Premises or release or add additional real property, improvements or equipment from or to the Leased Premises described in Exhibit B. All costs and expenses incurred in connection with any such substitution or addition shall be borne by the Lessee. Notwithstanding any substitution or addition pursuant to this Section, there shall be no reduction in or abatement of the Lease Payments due from the Lessee hereunder as a result of such substitution.

If the Lessee substitutes any alternate real property or improvement for the Leased Premises or adds additional components to the Leased Premises, written notice of such substitution or addition shall be delivered by the Lessee to all rating agencies, if any, then rating the Certificates. The Lessee shall not substitute alternate real property or improvements for the Leased Premises or add an additional component to the Leased Premises, without first obtaining (a) an opinion of Special Counsel to the effect that such substitution or addition shall not, in and of itself, impair the exclusion from gross income of interest payable with respect to the Certificates, and (b); if the Lessee substitutes alternate real property, a ALTA title insurance policy respecting the ownership and condition of such substituted real property.

In the event that the Lessee effects a substitution or release of all or a portion of the Leased Premises hereunder, all or a designated portion of the Leased Premises formerly subjected to this Lease shall be released from the lien hereof upon receipt by the Trustee of: (a) the written request of the Lessee to that effect; (b) written evidence to the effect that the remaining or substituted Leased Premises have a fair rental value no less than the Principal Component of Certificates then remaining Outstanding, as evidenced by a certificate of the City; (c) in the event that the substitute Leased Premises comprise improvements, that such improvements have a useful life at least equal to the remaining period during which the Certificates are Outstanding; (d) evidence by way of appropriate title insurance or a bring-down of the title insurance described in Section 5.5(b) that there are no prior liens or encumbrances on the property proposed to be substituted, which liens or encumbrances would have an adverse effect on the use and occupancy of the Leased Premises by the City; and (e) a further opinion of Special Counsel to the effect that such release will have no adverse effect upon the tax-exempt status of interest with respect to the Certificates.

The Lessee, the Lessor and the Trustee shall execute any and all appropriate legal documents, instruments and certificates to effect any release or substitution authorized pursuant to this section. After any such release or substitution, the term "Leased Premises" shall be deemed to include only the remaining or substituted portion of the Leased Premises. In addition, upon the payment in full, prepayment or defeasance of the Certificates, the Leased Premises shall also be released as described in this Section.

ARTICLE IV

AGREEMENT TO LEASE; TERMINATION OF LEASE; LEASE PAYMENTS; TITLE TO THE LEASED PREMISES

Section 4.1 **Lease.** The Lessor hereby leases the Leased Premises to the Lessee, and the Lessee hereby leases the Leased Premises from the Lessor, upon the terms and conditions set forth in this Lease.

Section 4.2 **Term of Lease.** The “Term” of this Lease shall mean the duration of this Lease for the Leased Premises, which shall commence on the Closing Date, and shall continue until payment in full of all Lease Payments, or through the date that is five years after the final maturity date set forth on Exhibit A hereto, unless earlier terminated in accordance with the following paragraph. The Lessee hereby represents, warrants and covenants that the useful life of the Leased Premises is not shorter than the term of the Certificates.

The Term of this Lease will end upon the earliest of any of the following events:

- (a) a default by the Lessee and the Lessor’s subsequent election to terminate this Lease under Section 9.2(b);
- (b) the payment by the Lessee of all Lease Payments required under Section 4.3 and any Additional Payments required under Section 4.6 hereof;
- (c) the deposit of moneys or Federal Securities with the Trustee in amounts sufficient to pay all of the Lease Payments and Additional Payments as the same shall become due, as provided by Section 10.1;
- (d) upon the exercise by the Lessee of its option to purchase the Leased Premises as provided in Section 4.3(b); or
- (e) five (5) years beyond the final maturity of the Certificates.

In order for the Lessee to terminate this Lease upon prepayment in full of Lease Payments pursuant to Section 10.1 hereof, the defeasance provisions set forth in Section 14.1 of the Trust Agreement shall have been complied with. In addition, the Lessee shall not have the right to terminate this Lease by reason of default by the Lessor.

Section 4.3 **Lease Payments.**

(a) **Obligation to Pay.**

(1) **Time and Amount.** Subject to the provisions of Article VI and Article X, the Lessee agrees to pay to the Lessor, its successors and assigns, as rental for the use and possession of the Leased Premises, the Lease Payments in the amounts specified in Exhibit A, to be due and payable on the fifteenth (15th) day of each June and December or, if any such day is not a Business Day, then the next succeeding Business Day (each, a “Lease Payment Date”), which are intended to be sufficient in both time and amount to pay when due the portion of the Principal Component and Interest Component evidenced and represented by the Certificates and due on the

next Payment Date. The Lease Payments shall be treated as a credit against the payments due to be distributed to the Owners on such Payment Date.

(2) Source of Payments; Budget and Appropriations. Lease Payments shall be paid from any source of legally available funds of the Lessee, and subject to Article VI, the Lessee covenants to take such action as may be necessary to include all Lease Payments and Additional Payments due hereunder in its annual general fund budgets and to make the necessary appropriations for all such Lease Payments and Additional Payments, which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee hereunder.

(3) Credits. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts required for payment of Principal Component or Interest Component due with respect to any Certificates not yet presented for payment) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid. At such time as the moneys on hand in the Lease Payment Fund are equal, to all Lease Payments remaining unpaid hereunder, such moneys shall be applied by the Trustee, pursuant to Section 14.1 of the Trust Agreement, to such Lease Payments on behalf of the Lessee and the Lessee shall not be required to make any further Lease Payments hereunder. A Lease Payment payable on a Lease Payment Date is consideration for the use and possession of the Leased Premises from the next preceding Lease Payment Date.

(4) No Withholding. Notwithstanding any dispute between the Lessor and the Lessee, including any dispute as to the failure of any portion of the Leased Premises to perform the task for which it is leased, the Lessee shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

(b) Terms and Effect of Prepayment and Purchase of the Leased Premises.

(1) Terms for Optional Prepayment. The Lessee may prepay Lease Payments at the times, in the amounts and subject to the premiums provided for in Section 4.4 of the Trust Agreement by providing notice to the Trustee no later than the sixtieth (60th) day prior to the date scheduled for prepayment and depositing in the Prepayment Fund an amount sufficient to effect prepayment of the designated Principal Component of Lease Payments.

(2) In Whole. In the event that the Lessee exercises its option to prepay all remaining Lease Payments and Additional Payments either by irrevocably making a security deposit with the Trustee as provided in Section 10.1 or by irrevocably depositing Net Insurance Proceeds as provided in Section 10.2, the Lessee's obligations under this Lease shall thereupon cease and terminate, including but not limited to the Lessee's obligations to continue to pay Lease Payments under this Section.

(3) In Part. In the event the Lessee prepays less than all of the remaining Principal Components of the Lease Payments pursuant to this Section or from Net Insurance Proceeds pursuant to Section 10.2, the amount of such prepayment shall be applied to reduce the Principal Components of the remaining Lease Payments as directed in writing by the Lessee,

corresponding to the resulting prepayment of principal with respect to the Certificates. Furthermore, delinquent Lease Payments shall be made to the Trustee for application in accordance with the Trust Agreement.

(c) Rate of Overdue Payments. In the event the Lessee should fail to make any of the payments required in this Section, the payments in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the net interest rate paid with respect to the Certificates. Furthermore, delinquent Lease Payments shall be made to the Trustee for application in accordance with the Trust Agreement.

(d) Fair Rental Value. The Lease Payments shall be paid by the Lessee in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Leased Premises during each such period for which said payments have been paid. The parties hereto have agreed and determined that each of such annual payments specified in Exhibit A are less than the annual fair rental value of the Leased Premises. In making such determination, consideration has been given to the costs of acquisition and construction of the Leased Premises, other obligations of the parties under this Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Leased Premises, revenues that can be generated from the operation of the Leased Premises and the benefits therefrom which will accrue to the Lessee and the general public.

(e) Budgets and Appropriation. The Lessee covenants to take such action as may be necessary to include (from all lawfully available moneys of the Lessee) all Lease Payments and Additional Payments due hereunder in its annual budgets and to make the necessary annual appropriations for all such Lease Payments and Additional Payments.

(f) Assignment. The Lessee understands and agrees that, pursuant to the Assignment Agreement, the Lessor has assigned its right to receive and collect Lease Payments, Additional Payments and prepayments thereof to the Trustee in trust for the benefit of the Owners of the Certificates, and the Lessee assents to such assignment. The Lessor hereby directs the Lessee, and the Lessee hereby agrees to pay to the Trustee at the Trustee's Principal Office or to the Trustee at such other place as the Trustee shall direct in writing, all payments payable by the Lessee pursuant to this Section, Section 4.6 and Article X.

(g) Abatement. Lease Payments shall be subject to abatement as provided in Section 6.1.

Section 4.4 Quiet Enjoyment. During the term of this Lease, the Lessor shall provide the Lessee with quiet use and enjoyment of the Leased Premises, and the Lessee shall during such term peaceably and quietly have and hold and enjoy the Leased Premises, without suit, trouble or hindrance from the Lessor, or any person or entity claiming under or through the Lessor except as expressly set forth in this Lease. The Lessor shall, at the request and expense of the Lessee, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor shall have the right to inspect the Leased Premises as provided in Section 7.3.

Section 4.5 Title to Leased Premises.

(a) Lessor Holds Title During Term. During the term of this Lease, the Lessor shall hold leasehold title to the Leased Premises and any and all additions which comprise repairs, replacements or modifications thereto. The Lessee shall take any and all actions reasonably required, including but not limited to executing and filing any and all documents, reasonably required to maintain and evidence the Lessor's leasehold title to and interest in the Leased Premises at all times during the Term of this Lease.

(b) Title Transferred to Lessee at End of Term. Upon expiration of the Term, unless such expiration occurs pursuant to a default by the Lessee and the Lessor has elected to terminate this Lease under Section 9.2(b) hereof, all right, title and interest of the Lessor in and to all of the Leased Premises shall be transferred to and vest in the Lessee, without the necessity of any additional document of transfer, except that with respect to the portion of the Leased Premises constituting real property, the Lessor shall authorize, execute and deliver to the Lessee any documents required to transfer title to such real property to the Lessee.

Section 4.6 Additional Payments. Throughout the Term of this Lease, Lessee agrees to pay, as Additional Payments, such amounts as shall be required for the payment of all administrative costs of the Lessor relating to the Leased Premises or the execution, sale and delivery of the Certificates, including, without limitation, the Lessee's obligation to pay all expenses, compensation and indemnification of the Trustee payable by the Lessee under the Trust Agreement, taxes of any sort whatsoever payable by the Lessor as a result of its ownership of the Leased Premises or its undertaking of the transactions contemplated herein or in the Trust Agreement as required by Section 5.1 hereof, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement or to defend the Lessor and its directors, officers and employees in connection therewith.

Additional Payments due under this Section shall be paid by the Lessee directly to the person or persons to whom such amounts shall be payable. The Lessee shall pay all such amounts when due or within ten days after notice in writing from the Trustee to the Lessee, stating the amount of Additional Payments then due and payable and the purpose thereof.

Section 4.7 Additional Certificates. This Lease may be amended to provide for the execution and delivery of Additional Certificates in accordance with the provisions set forth in Section 2.13 of the Trust Agreement, without the approval of the Owners, provided that the following shall have occurred:

(a) This Lease and the Site Lease shall have been amended, to the extent necessary, so as to increase the amount of the Lease Payments due from the Lessee hereunder in order to provide for the payment of the interest component and the principal component of the Additional Certificates; provided, however, that such increased Lease Payments may not exceed the fair rental value of the Leased Premises at the time of such amendment.

(b) The Lessee shall not then be in default under the Trust Agreement, this Lease or any supplement or amendment thereto then in effect; and

(c) The trustee for the Additional Certificates shall be the Trustee.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 5.1 Maintenance, Utilities, Taxes and Assessments. Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Premises, all repair and maintenance of the Leased Premises shall be the responsibility of the Lessee, and the Lessee shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the Lessee or any sublessee thereof. The Lessee shall also pay any taxes or assessments due with respect to the Leased Premises. In exchange for the Lease Payments herein provided, the Lessor agrees to provide only the Leased Premises, as hereinbefore more specifically set forth.

Section 5.2 Modification of the Leased Premises.

(a) The Lessee shall, at its own expense, have the right to make additions, modifications, and improvements to the Leased Premises if such improvements are necessary or beneficial for the use of the Leased Premises. All such additions, modifications and improvements shall thereafter comprise part of the Leased Premises and be subject to the provisions of this Lease. Such additions, modifications and improvements shall not in any way damage the Leased Premises or cause them to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the tax-exempt status of the Interest Components of the Lease Payments; and the Leased Premises, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value in the aggregate which is not less than the value of the Leased Premises immediately prior to the making of such additions, modifications and improvements.

(b) The Lessee will not permit any mechanic's or other lien to be established or remain against the Leased Premises for labor or materials furnished in connection with any additions, modifications, remodeling or construction made by the Lessee pursuant to this Section, except Permitted Encumbrances; provided, that if any such lien is established and the Lessee shall first notify or cause to be notified the Lessor of the Lessee's intention to do so, the Lessee may in good faith contest any lien filed or established against the Leased Premises, and in such event may permit the liens so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Lessor with full security against any loss or forfeiture which might arise from such nonpayment with respect to the Leased Premises, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

Section 5.3 Commercial General Liability Insurance, and Workers' Compensation Insurance.

(a) Commercial General Liability insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of this Lease, "Commercial General Liability" insurance (or its equivalent) in protection of the Lessee and the Lessor, their respective officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Lessee, and may be maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the Lessee.

The amount of said coverage shall be no less than \$5,000,000 per occurrence. If an aggregate applies, it shall not be less than twice the occurrence limit. Deductibles, if any, shall be in such amounts as may reasonably be obtained by a city of comparable size to the Lessee, in Los Angeles County, insuring risks comparable to those that are the subject of said insurance coverage, but in no circumstance be in excess of amounts that would be reasonable in the exercise of prudence and good judgment by the Lessee.

The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid, including, where appropriate, the application of Net Insurance Proceeds with respect to the prepayment of the Lease Payments as provided in Section 6.2 hereof.

(b) Workers' Compensation. The Lessee shall also maintain workers' compensation insurance as required under the laws of the State of California.

Section 5.4 All Risk Property Insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of this Lease, "All Risk" property insurance, in an aggregate amount at least equal to the aggregate Principal Component of Certificates at that time Outstanding; except that such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee. The Net Insurance Proceeds of each policy or coverage shall be applied as provided in Section 6.2.

Each policy of insurance required by this Section shall provide that all proceeds therefrom with respect to a claim arising by reason of the care and possession of the Leased Premises shall be payable to the Trustee for the benefit of the Owners, to be applied as provided in Section 6.2 hereof.

Section 5.5 Rental Interruption and Title Insurance.

(a) The Lessee shall maintain or cause to be maintained rental interruption insurance in an amount not less than the maximum remaining scheduled Lease Payments in any consecutive two-year period, to insure against loss of use of the Leased Premises caused by perils covered by the insurance required in Section 5.4. Such insurance may be subject to a deductible clause of not to exceed \$10,000 and may be maintained as part of or in conjunction with any other rental interruption insurance carried by the Lessee but may not be maintained in the form of self-insurance. The Net Insurance Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited toward the payment of the Lease Payments in the order in which such Lease Payments come due and payable. The Lessee may not self-insure for rental interruption insurance.

(b) The Lessee shall, on or before the Closing Date, obtain an ALTA title insurance policy, insuring the fee simple interest of the City and the leasehold interest established under this Lease, in an amount no less than the aggregate Principal Component of the Certificates.

Section 5.6 General Insurance Provisions.

(a) Form of Policies. Each policy of insurance required by Sections 5.3 and 5.4 hereof shall be obtained from an insurance provider licensed to do business in the State and rated "A"

or better by A.M. Best & Company, unless self-insured or maintained through a joint exercise of powers authority created for such purpose. All policies shall provide that the Trustee shall be given 30 days' written notice of cancellation thereof. All policies shall have the Lessee, the Lessor, and the Trustee as insureds and the Trustee as loss payee. The Trustee shall not be responsible for the sufficiency of any insurance herein required, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. All insurance coverage required pursuant to Sections 5.3 and 5.4 may be maintained through a joint exercise of powers authority created for such purpose and include self-insurance by the Lessee. Deductibles or self-insured retentions, if any, shall be in such amounts as may reasonably be obtained by a city of comparable size to the Lessee, in Los Angeles County, insuring risks comparable to those that are the subject of said insurance coverage.

(b) Payment of Premiums. The Lessee shall pay or cause to be paid when due the premiums for all insurance coverage required by this Lease.

(c) Evidence of Insurance. The Lessee will deliver to the Lessor and the Trustee by December 1 of each year a certificate to the effect that the requirements of Sections 5.3, 5.4, 5.5, and 5.6, as applicable, have been satisfied. Upon request, the Lessee shall provide a schedule, in such detail as the Lessor or Trustee may reasonably request, setting forth any insurance policies then in force described in Sections 5.3 through 5.5 of this Lease, listing the names of the insurers which have issued the policies, the policy limits thereof and the hazards and risks covered thereby.

(d) Self-Insurance Requirements. If the Lessee chooses to self-insure for any of the risks described in Section 5.3 and/or 5.4 for which, subject to the provisions of Section 5.6, self-insurance is permitted, it must on at least an annual basis by December 1 of each year provide a certificate to the Trustee and the Lessor to the effect that the Lessee's general insurance reserves are adequate to provide the required amount of coverage. The Trustee may conclusively rely upon such certificate.

Section 5.7 Installation of Lessee's Equipment. The Lessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Premises. All such items shall remain the sole property of the Lessee, in which neither the Lessor nor the Trustee shall have any interest, and may be modified or removed by the Lessee at any time provided that the Lessee shall repair and restore any and all damage to the Leased Premises resulting from the installation, modification or removal of any such items. Nothing in this Lease shall prevent the Lessee from purchasing or leasing items to be installed pursuant to this Section 5.7 under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Premises.

Section 5.8 Liens. Except as provided in this Article (including, without limitation, Section 5.2(b)), the Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Leased Premises, or any portion thereof, other than the respective rights of the Lessor and the Lessee as provided herein and in the Trust Agreement and Permitted Encumbrances. Except as expressly provided in this Article, the Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The Lessee shall reimburse the Lessor

for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Section 5.9 Use of the Leased Premises. The Lessee represents and warrants that it has an immediate need for, and expects to make immediate use of the Leased Premises, which need is not temporary or expected to diminish in the foreseeable future.

Section 5.10 Cooperation. The Lessor shall cooperate fully with the Lessee at the expense of the Lessee in filing any proof of loss with respect to any insurance policy maintained pursuant to this Article.

Section 5.11 Tax Covenants. In order to maintain the exclusion from gross income for federal income tax purposes of the Interest Component of each Lease Payment due under this Lease, the Lessee covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986, as amended. In furtherance of this covenant, the Lessee agrees to comply with the Tax Certificate, which is incorporated herein by this reference, as such Tax Certificate may be amended from time to time.

ARTICLE VI

DAMAGE AND DESTRUCTION; USE OF NET INSURANCE PROCEEDS

Section 6.1 Abatement of Lease Payments in Event of Loss of Use. A proportional amount of the Lease Payments shall be abated during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Premises by the Lessee. The amount of such abatement shall be determined by the Lessee such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Leased Premises not condemned, damaged or destroyed. Such abatement shall commence on the date of condemnation, damage or destruction and shall end with the substantial completion of the replacement or work of repair. Except as provided herein, in the event of any such condemnation, damage or destruction, this Lease shall nonetheless continue in full force and effect and the Lessee waives any right to terminate this Lease by virtue of any such condemnation, damage or destruction.

It is the intention of the parties that, in the event of abatement of Lease Payments hereunder, rental interruption insurance required by Section 5.5 hereof shall provide funds sufficient for the payment of such Lease Payments during the period required for any repair of the Leased Premises.

Section 6.2 Application of Net Insurance Proceeds.

(a) Deposit in Net Insurance Proceeds Fund. Net Insurance Proceeds shall be deposited in the Net Insurance Proceeds Fund by the Trustee promptly upon receipt thereof and, if the Lessee Representative notifies the Trustee in writing within ninety (90) days after the date such Net Insurance Proceeds are delivered to the Trustee of the Lessee's determination that the replacement or repair of the affected portion of the Leased Premises is not economically feasible or in the best interests of the Lessee, then such Net Insurance Proceeds shall be promptly transferred by the Trustee to the Prepayment Fund and applied as provided in Section 10.2 unless, as provided in Section 4.2 of the Trust Agreement, such Net Insurance Proceeds together with funds then on hand in the Lease Payment Fund are insufficient to prepay all of that portion of the Certificates representing

interests in the Lease Payments for the Leased Premises or relevant portion thereof, in which event such Net Insurance Proceeds will be deposited in a separate account by the Trustee and invested and used in accordance with Section 4.2 of the Trust Agreement; otherwise, such Net Insurance Proceeds shall be applied as provided in Section 6.2(c) hereof.

(b) Replacement or Repair of the Leased Premises. Notwithstanding the foregoing, however, the Lessee may exercise its option to replace or repair the affected portion of the Leased Premises only if (i) the Net Insurance Proceeds available for such purpose, together with any other funds supplied by the Lessee for such purpose, are sufficient therefor, and (ii) in the event that damage or destruction results in an abatement of Lease Payments, the Lessee Representative certifies and covenants to the Lessor that, unless the Lessee shall have certified with respect to an abatement as set forth in Section 6.1 hereof, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds or other lawfully available funds will be available to pay in full all Lease Payments coming due during such period as described in Section 5.5 hereof.

(c) Requisition. All Net Insurance Proceeds deposited in the Net Insurance Proceeds Fund and not so transferred to the Prepayment Fund as provided in Section 6.2(a) shall be applied to the prompt replacement or repair of the affected portion of the Leased Premises by the Lessee, upon receipt of a requisition signed by the Lessee Representative (a "Requisition") stating with respect to each payment to be made (i) the Requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Insurance Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee may conclusively rely on the Requisition as to the amount of such obligation. Any balance of the Net Insurance Proceeds remaining after such replacement or repair has been completed shall, after payment of amounts due the Trustee, be paid to the Lessee upon written request of the Lessee.

Section 6.3 Laws and Ordinances. The Lessee agrees to observe and comply with all rules, regulations and laws applicable to the Lessee with respect to the Leased Premises and the operation thereof. The cost, if any, of such observance and compliance shall be borne by the Lessee, and the Lessor shall not be liable therefor. The Lessee agrees further to place, keep, use, maintain and operate the Leased Premises in such a manner and condition as will provide for the safety of its agents, employees, invitees, subtenants, licensees and the public. Lessee irrevocably waives and releases Lessee's rights under California Civil Code Sections 1932, 1933(4), 1941, 1941.1 and 1942.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS

Section 7.1 Disclaimer of Warranties. THE LESSOR AND ITS ASSIGNS MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE LESSEE OF THE LEASED PREMISES OR ANY PART THEREOF. THE LESSEE ACKNOWLEDGES THAT THE LESSOR IS NOT A MANUFACTURER OF ANY COMPONENTS OF THE LEASED PREMISES OR A DEALER THEREIN, AND THE LESSEE IS LEASING THE LEASED PREMISES "AS-IS." In no

event shall the Lessor or its assigns be liable for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease or the Trust Agreement for the existence, furnishing, functioning or Lessee's use and possession of the Leased Premises.

Section 7.2 Lessee's Right to Enforce Warranties. The Lessor hereby irrevocably appoints the Lessee as its agent and attorney-in-fact during the term of this Lease, so long as the Lessee shall not be in default hereunder, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Project or the Leased Premises which the Lessor may have against any vendor or contractor. The Lessee's sole remedy for the breach of any such warranty, indemnification or representation shall be against the vendor or contractor with respect thereto, and not against the Lessor, nor shall such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to this Lease, including the right to receive full and timely Lease Payments and all other payments due hereunder. The Lessee shall be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor shall, upon the Lessee's request and at the Lessee's expense, do all things and take all such actions as the Lessee may request in connection with the assertion of any such claims and rights.

Section 7.3 Access to the Leased Premises. The Lessee agrees that the Lessor, any Lessor Representative and the Lessor's successors or assigns, shall have the right (but no duty) at all reasonable times to enter upon and to examine and inspect the Leased Premises. The Lessee further agrees that the Lessor, any Lessor Representative, and the Lessor's successors or assigns shall have such rights of access to the Leased Premises as may be reasonably necessary to cause the proper maintenance of the Leased Premises in the event of failure by the Lessee to perform its obligations hereunder; provided, however, that the Lessor's assigns shall have no duty to cause such proper maintenance.

Section 7.4 Release and Indemnification Covenants. To the extent permitted by law, the Lessee shall and hereby agrees to indemnify and save the Lessor and its successors, assigns, agents, officers, employees and servants harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Leased Premises by the Lessee, (ii) any breach or default on the part of the Lessee in the performance of any of its obligations under this Lease, (iii) any act or negligence of the Lessee or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Premises, or (iv) any act or negligence of any assignee or sublessee of the Lessee with respect to the Leased Premises. No indemnification is made under this Section or elsewhere in this Lease for claims, losses or damages, including legal fees and expenses arising Out of the willful misconduct or negligence, under this Lease by the Lessor, its directors, officers, agents, employees, successors or assigns.

ARTICLE VIII

ASSIGNMENT, SUBLEASING AND AMENDMENT

Section 8.1 Assignment by the Lessor. Certain of the Lessor's rights under this Lease, including the right to receive and enforce payment of the Lease Payments to be made by the Lessee under this Lease, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the Lessee hereby consents. Except as provided herein and in the Trust Agreement, the Lessor will not assign this Lease, its right to receive Lease Payments

from the Lessee, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in Section 2.2.

Section 8.2 Assignment and Subleasing by the Lessee. This Lease may be assigned by the Lessee so long as such assignment does not adversely affect the exclusion from gross income of the Interest Component of the Lease Payments. The Lessee may sublease the Leased Premises, with the consent of the Lessor, subject to all of the following conditions:

(a) This Lease and the obligation of the Lessee to make Lease Payments hereunder shall remain obligations of the Lessee;

(b) The Lessee shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease;

(c) No sublease by the Lessee shall cause the Leased Premises to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and

(d) No sublease shall cause the Interest Component of the Lease Payments due with respect to the Leased Premises to become included within gross income for federal income tax purposes or subject to State of California personal income taxes.

Section 8.3 Amendment. The Lessee will not alter, modify or cancel or agree or consent to alter, modify or cancel this Lease except as permitted by Article X of the Trust Agreement.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

Section 9.1 Events of Default Defined. The following shall be “events of default” under this Lease and the terms “events of default” and “default” shall mean, whenever they are used in this Lease, any one or more of the following events:

(a) Failure by the Lessee to pay any Lease Payment required to be paid hereunder by not later than ten (10) Business Days before the Payment Date immediately following each corresponding Lease Payment Date.

(b) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed herein or otherwise with respect hereto or in the Trust Agreement, other than as referred to in clause (i) of this Section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Lessor, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, but is capable of being corrected within 60 days, the Lessor, the Trustee or such Owners, as the case may be, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected; and

(c) The filing of a voluntary petition in bankruptcy by the Lessee, or the failure by the Lessee promptly to institute judicial proceedings to lift any execution, garnishment or

attachment of such consequence as will materially impair its ability to carry on its operations, or the adjudication of the Lessee as insolvent or as a bankrupt, or any assignment by the Lessee for the benefit of its creditors, or the application for the appointment of any receiver, trustee, custodian or similar officer by the Lessee or the entry by the Lessee into an agreement of composition with its creditors.

Section 9.2 Remedies on Default. Whenever any event of default referred to in Section 9.1 shall have happened and be continuing, it shall be lawful for the Lessor to exercise any and all remedies available pursuant to law or in equity, or granted pursuant to this Lease; provided, however, that notwithstanding anything herein or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an event of default hereunder, the Lessee will surrender possession of the Leased Premises to the Lessor, if requested to do so by the Lessor, or by the Trustee or the Owners in accordance with the provisions of the Trust Agreement.

(a) No Termination: Repossession and Re-Lease on Behalf of Lessee. In the event the Lessor does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the Lessor with the consent of the Lessee, which consent is irrevocably given, may repossess the Leased Premises and re-let them for the account of the Lessee, in which event the Lessee's obligation will continue to accrue from year to year in accordance with the Lease and the Lessee will continue to receive the value of the use of the Leased Premises from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Lessee shall remain the same as prior to such default to pay Lease Payments whether the Lessor re-enters or not. The Lessee agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained herein and shall reimburse the Lessor for any deficiency arising out of the re-letting of the Leased Premises, or, in the event the Lessor is unable to re-let the Leased Premises, then for the full amount of all Lease Payments to the end of the term of this Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments hereunder, notwithstanding such repossession by the Lessor or any suit, brought by the Lessor for the purpose of effecting such repossession of the Leased Premises or the exercise of any other remedy by the Lessor.

The Lessee hereby irrevocably appoints the Lessor as the agent and attorney-in-fact of the Lessee to repossess and re-let the Leased Premises in the event of default by the Lessee in the performance of any covenants contained herein to be performed by the Lessee and to remove (any removal to be done with reasonable prudence) all personal property connected to or made a part of the Leased Premises, to place such property in storage or other suitable place in the County of Los Angeles, for the account of and at the expense of the Lessee, and the Lessee hereby exempts and agrees to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-letting of the Leased Premises. The Lessee hereby waives any and all claims for damages caused or which may be caused by the Lessor in repossessing the Leased Premises as provided herein and all claims for damages that may result from the destruction of or the injury to the Leased Premises and all claims for damage to or loss of any property belonging to the Lessee that may be in or upon the Leased Premises.

The Lessee agrees that the terms of this Lease constitute full and sufficient notice of the right of the Lessor to re-let the Leased Premises in the event of such repossession without effecting a surrender of this Lease, and further agrees that no acts of the Lessor in effecting such re-letting shall

constitute a surrender or termination of this Lease irrespective of the term for which such re-letting is made or the terms and conditions of such re-letting or otherwise, but that, on the contrary, in the event of such default by the Lessee the right to terminate this Lease shall vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below. The Lessee further waives the right to any rental obtained by the Lessor in excess of the Lease Payments and hereby conveys and releases such excess to the Lessor as compensation to the Lessor for its services in re-letting the Leased Premises. In the event that the liability of the Lessee under this subsection is held to constitute indebtedness or liability in any year exceeding the income and revenue provided for such year, the Lessor, or the Trustee or the Owners as assignees of the Lessor, shall not exercise the remedies provided in this subsection.

(b) **Termination: Repossession and Re-Lease.** In the event of the termination of this Lease by the Lessor at its option and in the manner hereinafter provided on account of default by the Lessee (and notwithstanding any repossession of the Leased Premises by the Lessor in any manner whatsoever or the sale or re-letting of the Leased Premises), the Lessee nevertheless agrees to pay to the Lessor all costs, losses or damages, but not Lease Payments, howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments. Any proceeds of the re-letting or other disposition of the Leased Premises or the sale of the improvements located on the Leased Premises by the Lessor shall, after payment of the fees and expenses of the Trustee and other Additional Payments, be deposited into the Lease Payment Fund and be applied in accordance with the provisions of Section 5.3 of the Trust Agreement. Any surplus received by the Lessor from such sale or re-letting shall be the absolute property of the Lessor and the Lessee shall have no right thereto, nor shall the Lessee be entitled to any credit in the event of a surplus in the rentals received by the Lessor for the Leased Premises. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Leased Premises shall by itself operate to terminate this Lease, and no termination of this Lease on account of default by the Lessee shall be or become effective by operation of law, or otherwise, unless and until the Lessor shall have given written notice to the Lessee of the election on the part of the Lessor to terminate this Lease. The Lessee covenants and agrees that no surrender of the Leased Premises or of the remainder of the term hereof or any termination of this Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination shall be effected whether by operation of law or acts of the parties hereto, except only in the manner herein expressly provided.

Section 9.3 No Remedy Exclusive. No remedy conferred herein upon or reserved to the Lessor is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission 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 thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lessor to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article or by law.

Section 9.4 Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Lease should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained

herein, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

Section 9.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6 Application of the Proceeds from the Sale or Lease of the Leased Premises. All amounts received by the Lessor under this Article other than as provided in Section 9.2(b) herein, after payment of all fees and expenses of the Trustee including but not limited to attorneys' fees and other Additional Payments, shall be applied by the Trustee as set forth in Section 13.3 of the Trust Agreement.

Section 9.7 Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Lessor under this Article have been assigned by the Lessor to the Trustee under the Assignment Agreement, to which assignment the Lessee hereby consents. Such rights and remedies shall be exercised by the Trustee, at, the direction of the Owners of the Certificates as provided in the Trust Agreement.

ARTICLE X

PREPAYMENT OF LEASE PAYMENTS AND PURCHASE OF LEASED PREMISES

Section 10.1 Security Deposit. Notwithstanding any other provision of this Lease, the Lessee may on any date exercise its option to prepay its obligations hereunder by an irrevocable deposit by it with the Trustee of: (i) an amount of cash which, together with amounts on deposit in the Lease Payment Fund, is sufficient to pay the prepayment prices set forth in Section 4.4 of the Trust Agreement (expressed as a percentage of the Principal Component of Certificates of the Series to be prepaid), plus accrued interest to the date fixed for prepayment, or (ii) Federal Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, and money then on deposit in the Lease Payment Fund relating to Series of Certificates to be prepaid, together with interest thereon, be fully sufficient to pay the prepayment prices set forth in Section 4.4 of the Trust Agreement (expressed as a percentage of the Principal Component of Certificates of the Series to be prepaid), plus accrued interest to the date fixed for prepayment, as the Lessee with respect to payments of Lease Payments shall instruct at the time of said deposit. In the event of a deposit pursuant to this Section, and provided that the Lessee has satisfied all requirements for defeasing the Certificates under Section 14.1 of the Trust Agreement, all obligations of the Lessee under this Lease, and all security provided by this Lease for said obligations, shall cease and terminate, excepting only the obligation of the Lessee to make, or cause to be made, Lease Payments from the deposit made by the Lessee pursuant to this Section, and satisfaction of all obligations to pay Additional Payments, and title to the Leased Premises shall vest in the Lessee on the date of said deposit automatically and without further action by the Lessee or the Lessor (except as provided herein). Said deposit shall be deemed to be and shall constitute a special fund for the payment of the Lease Payments in accordance with the provisions of this Lease. The Lessor shall execute and deliver such further instruments and take such further action as may reasonably be requested by the Lessee for carrying out the title transfer of the Leased Premises.

Section 10.2 Mandatory Prepayment From Net Insurance Proceeds. The Lessee shall be obligated to prepay the Lease Payments and the Certificates in whole or in part any January 1 or July 1 from and to the extent of any Net Insurance Proceeds heretofore transferred to the Prepayment Fund pursuant to Section 7.1 of the Trust Agreement subject to the requirements of Section 6.2(a) hereof and Section 7.1 of the Trust Agreement. The Lessee and the Lessor hereby agree that such Net Insurance Proceeds shall be credited towards the Lessee's obligations hereunder. Except in the case of such prepayment of the Lease Payments in whole, such prepayment shall be credited to the Lease Payment as directed in writing by the Lessee.

Section 10.3 Credit for Amounts on Deposit. In the event of prepayment of the Principal Components of the Lease Payments in full under Section 10.1, all amounts then on deposit in the Lease Payment Fund shall be credited toward the amounts then required to be so prepaid.

ARTICLE XI

MISCELLANEOUS

Section 11.1 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received five business days after deposit in the United States first-class mail, postage prepaid, to the Lessee and the Lessor at the following addresses:

If to the Lessee: City of Manhattan Beach
 1400 Highland Avenue
 Manhattan Beach, California 90266
 Attention: City Manager

If to the Lessor: Manhattan Beach Capital Improvements Corporation
 1400 Highland Avenue
 Manhattan Beach, California 90266
 Attention: Chief Administrative Officer

The Lessor and the Lessee, by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

Section 11.2 Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Lessor and the Lessee and their respective successors and assigns.

Section 11.3 Severability. In the event any provision of this Lease shall be held invalid or unenforceable by a court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

Section 11.4 Net-Net-Net Lease. This Lease shall be deemed and construed to be a "net-net-net lease" and the Lessee hereby agrees that the Lease Payments shall be an absolute net return to the Lessor, free and clear of any expenses, charges or set-offs whatsoever, except as expressly provided herein.

Section 11.5 No Merger of Estates. The Lease shall not operate as a merger of the Lessee's leasehold estate in the Leased Premises pursuant to this Lease and its fee estate in the Leased

Premises and shall not cause the extinguishment of the leasehold interest granted to the Lessor under the Site Lease.

Section 11.6 Further Assurances and Corrective Instruments. The Lessor and the Lessee agree that they will, from time to time, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Premises hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

Section 11.7 Execution in Counterparts. This Lease may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.8 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, applicable to contracts made and performed in such State.

Section 11.9 Third-Party Beneficiaries. The Certificate Owners are expressly recognized as third-party beneficiaries under this Lease.

IN WITNESS WHEREOF, the Lessor and the Lessee have caused this Lease to be executed in their names by their duly authorized officers, as of the date first above written.

MANHATTAN BEACH CAPITAL
IMPROVEMENTS CORPORATION,
as Lessor

By: _____
Chief Administrative Officer

APPROVED AS TO FORM:

By: _____
Counsel to the Corporation

CITY OF MANHATTAN BEACH, as Lessee

By: _____
City Manager

ATTEST:

By: _____
Senior Deputy City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

EXHIBIT A

SCHEDULE OF LEASE PAYMENTS

Lease Payment Date	Principal Component	Interest Component	Total
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EXHIBIT B

DESCRIPTION OF LEASED PREMISES

Real property in the City of Manhattan Beach, County of Los Angeles, State of California, described as follows:

APN: 4179-002-905 (PORTION)

A PORTION OF THOSE PLOTS, PIECES OR PARCELS OF LAND SITUATE, LYING OR BEING IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, MORE PARTICULARLY AS FOLLOWS:

LOTS 39, 40, 41, 42, 57, 58, 59, 82 AND PORTIONS OF LOTS 60, 61, 62, 63 81 AND A PORTION OF LOT C, AND VACATED STREETS, TRACT NO. 2541 IN THE CITY OF MANHATTAN BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 24, PAGE 86 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

NOTE:

THE LAND AND BUILDING GENERALLY KNOWN AS THE CITY HALL OF THE CITY OF MANHATTAN BEACH, CALIFORNIA, LOCATED AT 1400 HIGHLAND DRIVE, MANHATTAN BEACH, CALIFORNIA 90266