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**LEASE AGREEMENT**

**by and between**

**CITY OF WATSONVILLE**

**and**

**WATSONVILLE PUBLIC FINANCE AUTHORITY**

**Dated as of June 1, 2025**

**Relating to**

**\$(PAR)  
WATSONVILLE PUBLIC FINANCE AUTHORITY  
LEASE REVENUE BONDS, SERIES 2025**

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## **LEASE AGREEMENT**

**THIS LEASE AGREEMENT** (this “Lease Agreement”) executed and entered into as of June 1, 2025, is by and between the CITY OF WATSONVILLE (the “City”), a charter city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessee, and the WATSONVILLE PUBLIC FINANCE AUTHORITY (the “Authority”), a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California, as lessor.

### **RECITALS**

**WHEREAS**, the City and the Authority desire to finance all or a portion of the design, acquisition, construction and/or installation of certain capital improvement projects in the City, including capital improvements to Ramsay Park and the Watsonville Civic Plaza (collectively, the “Project”);

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and residents of the City to authorize the preparation, sale and delivery of the “Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025” (the “Series 2025 Bonds”) for the purpose of financing the Project;

**WHEREAS**, to facilitate the issuance of the Series 2025 Bonds, the City will lease certain real property described in Exhibit A attached hereto and the improvements located thereon (the “Property”) to the Authority pursuant to a Ground Lease, dated as of the date hereof, and the City will sublease the Property back from the Authority pursuant to this Lease Agreement;

**WHEREAS**, the City and the Authority desire to provide for the issuance of the Series 2025 Bonds pursuant to an Indenture, dated as of the date hereof, by and among the Authority, the City and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”);

**WHEREAS**, the Series 2025 Bonds are payable from base rental payments (the “Base Rental Payments”) to be made by the City hereunder;

**WHEREAS**, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of the date hereof, between the Trustee and the Authority; and

**WHEREAS**, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Lease Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease Agreement;

**NOW, THEREFORE**, in consideration of the mutual covenants hereinafter contained, the parties hereto agree as follows:

## ARTICLE I

### DEFINITIONS

**Section 1.01 Definitions.** Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Lease Agreement, have the meanings herein specified, which meanings shall be equally applicable to both the singular and plural forms of any of the terms herein defined. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

**“Additional Bonds”** means bonds other than the Series 2025 Bonds issued under the Indenture in accordance with the provisions thereof.

**“Additional Rental Payments”** means all amounts payable by the City as Additional Rental Payments pursuant to Section 3.02 hereof.

**“Authority”** means the Watsonville Public Finance Authority, a joint exercise of powers authority organized and existing under the laws of the State of California.

**“Base Rental Deposit Date”** means the fifth (5<sup>th</sup>) Business Day next preceding each Interest Payment Date.

**“Base Rental Payments”** means all amounts payable to the Authority from the City as Base Rental Payments pursuant to Section 3.01 hereof.

**“Base Rental Payment Schedule”** means the schedule of Base Rental Payments payable to the Authority from the City pursuant to Section 3.01 hereof and attached hereto as Exhibit C.

**“Bonds”** means the Series 2025 Bonds, and any Additional Bonds.

**“City”** means the City of Watsonville, a charter city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

**“Closing Date”** means June [ ], 2025

**“Costs”** means, with respect to the Project, together with any other proper item of cost not specifically mentioned herein, (a) costs of payment of, or reimbursement for, acquisition, design, construction, rehabilitation, installation, delivery and financing of the Project, including, but not limited to, the payment of real property rental, administrative costs and capital expenditures relating to acquisition, construction, installation, and demolition, inspection costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee pursuant to the Indenture and other financing documents, legal fees and charges, financial, accounting and other professional consultant fees, costs of rating agencies or credit ratings, fees for the printing, execution, transportation and safekeeping of the Series 2025 Bonds; (b) all other costs which the City shall be required to pay under the terms of any contract or contracts for the acquisition, construction, delivery and installation of the Project, and demolition work required for the Project, including, but not limited to, the cost of insurance; (c) any sums required to reimburse the City for advances made for any of the above items, or for any other costs incurred and for work done, which is properly chargeable to the Project; (d) any costs paid from the Net Insurance Proceeds to repair, restore or replace the Project; and (e) such other expenses not specified herein as may be necessary or

incidental to the acquisition, construction, delivery and installation of the Project, the financing thereof and the placing of the same in use and operation. Costs, as defined herein, shall be deemed to include the cost and expenses incurred by any agent of the City for any of the above-mentioned items.

**“Ground Lease”** means the Ground Lease, dated as of the date hereof, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with to the provisions thereof and hereof.

**“Indenture”** means the Indenture, dated as of the date hereof, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Joint Powers Agreement”** means the Joint Exercise of Powers Agreement, dated as of October 24, 2017, as amended pursuant to that certain First Amendment to Joint Exercise of Powers Agreement, dated as of May 1, 2025, each between the City and the Industrial Development Authority of the City of Watsonville, pursuant to which the Authority is established, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Lease Agreement”** means this Lease Agreement, as originally executed and as it may from time to time be amended in accordance with the provisions hereof.

**“Net Insurance Proceeds”** means any insurance proceeds or condemnation award paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of Article VI hereof, permit to remain unpaid, (b) the Assignment Agreement, (c) this Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Closing Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, and (h) future subleases of the Property entered into by the City, as sublessor, and third party tenants, as sublessee, so long as such subleases are entered into in compliance with Section 9.05 hereof.

**“Project”** is defined in the Recitals and further described in Exhibit B attached hereto. The City may add, delete or substitute other improvements for components of the Project described in Exhibit B by filing with the Authority and Trustee a Certificate of the City stating that such addition,

deletion, or substitution shall not cause the City to violate any of its covenants, representations and warranties made in this Lease Agreement, the Indenture, or the Tax Certificate.

**“Property”** means certain real property and improvements located thereon owned by the City and described in Exhibit A attached hereto and incorporated herein, commonly referred to as the i) City Hall, located at 250 Maple Street, Watsonville, California, (ii) the Watsonville Parks and Community Services Building, located at 231 Union Street, Watsonville, California, (iii) the Watsonville Police Information Technology Building, located at 215 Union Street, Watsonville, California, and (iv) the Watsonville Youth Center, located at 30 Maple Street, Watsonville, California.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the twelve-month period commencing on May 1 of each year during the term of the Lease Agreement.

**“Series 2025 Bonds”** means the Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 issued under the Indenture.

**“Termination Date”** means May 1, 20[ ], unless extended or sooner terminated as provided in Section 2.02 hereof.

**“Trustee”** means the trustee appointed under the Indenture and referred to therein as the Trustee.

## **ARTICLE II**

### **LEASE OF PROPERTY; TERM**

#### **Section 2.01 Lease of Property.**

(a) The Authority hereby leases to the City and the City hereby leases from the Authority the Property, on the terms and conditions hereinafter set forth, subject to all Permitted Encumbrances.

(b) The leasing of the Property by the City to the Authority pursuant to the Ground Lease shall not effect or result in a merger of the City’s leasehold estate pursuant to this Lease Agreement and its fee estate as lessor under the Ground Lease, and the Authority shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and hereof. The leasehold interest granted by the City to the Authority pursuant to the Ground Lease is and shall be independent of this Lease Agreement; this Lease Agreement shall not be an assignment or surrender of the leasehold interest granted to the Authority under the Ground Lease.

**Section 2.02 Term; Occupancy.** The term of this Lease Agreement shall commence on the Closing Date and shall end on the Termination Date, unless such term is extended or sooner terminated as hereinafter provided. If on the Termination Date the Bonds shall not be fully paid, or

provision therefor made in accordance with Article X of the Indenture, or the Indenture shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of this Lease Agreement shall be extended until the date upon which (i) all Bonds shall be fully paid, or provision therefor made in accordance with Article X of the Indenture or (ii) the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full. Notwithstanding the foregoing, the term of this Lease Agreement shall in no event be extended more than ten years beyond the Termination Date, such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds shall be fully paid, or provision therefor made in accordance with Article X of the Indenture, the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full, then the term of this Lease Agreement shall end simultaneously therewith.

### **ARTICLE III**

#### **RENTAL PAYMENTS**

##### **Section 3.01 Base Rental Payments.**

(a) Subject to the provisions hereof relating to a revision of the Base Rental Payment Schedule pursuant to subsection (b) of this Section, the City shall pay to the Authority, as Base Rental Payments (subject to the provisions of Section 3.06 and Article VIII hereof) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments shall constitute principal, and a portion of which shall constitute interest. Rental Payments, including Base Rental Payments, shall be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or of the State of California, or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

(b) If the term of this Lease Agreement shall have been extended pursuant to Section 2.02 hereof, the obligation of the City to pay Rental Payments shall continue to and including the Base Rental Deposit Date preceding the date of termination of this Lease Agreement (as so extended pursuant to Section 2.02 hereof). Upon such extension, the Base Rental Payments shall be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property.

**Section 3.02 Additional Rental Payments.** The City shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;



(b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to Article VI hereof;

(d) any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(e) all other payments required to be paid by the City under the provisions of this Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable hereunder shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

**Section 3.03 Fair Rental Value.** The parties hereto have agreed and determined that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

**Section 3.04 Payment Provisions.** Each installment of Base Rental Payments payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the principal office of the Trustee in [San Francisco, California], or such other place or entity as the Authority or Trustee shall designate. Each Base Rental Payment shall be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which shall not be paid by the City when due and payable under the terms of this Lease Agreement shall bear interest from the date when the same is due hereunder until the same shall be paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due hereunder or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this Section on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

**Section 3.05 Appropriations Covenant.** The City covenants to take such action as may be necessary to include all Rental Payments due hereunder as a separate line item in its annual

budgets and to make necessary annual appropriations for all such Rental Payments. The City will deliver to the Authority and the Trustee a Certificate of the City stating that its final annual budget includes all Base Rental Payments due in the fiscal years addressed in such budget within ten days after the filing or adoption thereof. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City 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 City to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the City.

**Section 3.06 Rental Abatement.** Except as otherwise specifically provided in this Section, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The amount of such abatement shall be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority shall calculate such abatement and shall provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of this Lease Agreement shall be extended as provided in Section 2.02 hereof, except that the term shall in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture or proceeds of the rental interruption insurance required by section 601(d) hereof are available, Rental Payments shall not be abated as provided above but, rather, shall be payable by the City as a special obligation payable solely from said funds, accounts, and proceeds.

## **ARTICLE IV**

### **ACQUISITION, CONSTRUCTION AND IMPROVEMENT OF THE PROJECT**

**Section 4.01 Deposit of Bond Proceeds; City Deposit.** Upon the issuance of the Series 2025 Bonds, the Authority agrees that all proceeds of the Series 2025 Bonds shall be paid to the Trustee and that such moneys shall be deposited with the Trustee and be applied as provided in Section 3.02 of the Indenture

**Section 4.02 Acquisition, Construction and Improvement of the Project.** The City agrees to acquire, construct, deliver and install any portion of the Project to be financed with the proceeds of the Series 2025 Bonds, or to cause such portion to be acquired, constructed, delivered and installed, with the proceeds of Series 2025 Bonds paid to the City by the Authority pursuant to Section 4.01 above and the Authority shall have no responsibility with respect thereto.

**Section 4.03 Compliance with Law.** The City shall comply with all applicable provisions for bids and contracts prescribed by law with respect to the Project, including, without limitation, any applicable environmental review and approvals, Sections 20110 et seq. of the Public Contract Code and Article 42 (commencing with Section 20670 of Part 3 of Division 2) of the Public Contract Code. The City acknowledges and agrees that specific expenditures for all or any portion of the Project, as now or hereafter designated, are expressly subject to compliance with such requirements.

**Section 4.04 Payment of Costs.** Payment of Costs shall be made from the moneys deposited with the Trustee in the Project Fund as provided in Section 4.01 hereof and Section 3.05 of the Indenture, which shall be disbursed from the Project Fund in accordance and upon compliance with Section 3.05 of the Indenture.

**Section 4.05 Time of Completion.** The construction and equipping of the Project shall be completed on or prior to June 1, 2028, subject to excused delays pursuant to standard City procedures.

**Section 4.06 Construction and Acquisition of the Project.** The City agrees to oversee the construction, acquisition, delivery and installation of the Project in accordance with the following terms:

(a) Construction and Completion. The City agrees to proceed with all due diligence to complete the construction, acquisition, delivery and installation of the Project, all in accordance with the plans and specifications for the Project (the “Plans and Specifications”) approved by the City’s Principal Engineer or Public Works Director. The City shall comply with all statutes and laws applicable to the performance of its obligations hereunder, including all public laws applicable thereto and all laws regarding the approval, acquisition and construction of public projects by cities in the State of California. The City shall make certain that each contract relating to the Project is awarded in accordance with applicable law and contains a scheduled completion date which requires completion on or before the scheduled Completion Date referred to in Section 4.05 above;

(b) Reserved.

(c) Payment of Costs of the Project. Payment of the portion of the Costs of the Project being financed by the City shall be made from moneys deposited in the Project Fund, and shall be disbursed for such purpose in accordance and upon compliance with the Indenture. Neither the Authority nor the City shall be liable for the payment of Costs of the Project other than from amounts on deposit in the Project Fund; and

(d) Unexpended Monies. The City agrees that unexpended moneys remaining in the Project Fund shall, upon payment in full of all Costs of the Project, be applied solely in accordance with the provisions of the Indenture.

## ARTICLE V

### MAINTENANCE, ALTERATIONS AND ADDITIONS

#### Section 5.01 Modification of the Property.

(a) Subject to Section 9.02 hereof, the City and any sublessee shall, at its own expense, or with the proceeds of Additional Bonds, have the right to make additions, modifications, and improvements to any portion of the Property if such improvements are necessary or beneficial for the use of such portion of the Property. All such additions, modifications and improvements shall thereafter comprise part of the Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not in any way cause an abatement of Rental Payments with respect to the Property or cause it 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 State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest on the Bonds and Additional Bonds (to the extent such Additional Bonds were issued as tax exempt Bonds); and the Property, upon completion of any additions, modifications and improvements made pursuant to this Section, shall have an annual fair rental value which is not less than the annual Rental Payments.

(b) Subject to Section 9.02 hereof, the City and any sublessee shall, at its own expense, or with the proceeds of Additional Bonds, have the right to make replacements, redevelopment or renovation of all or a portion of the Property if the following conditions precedent are satisfied:

(i) The City receives an opinion of Bond Counsel, a copy of which the City shall furnish to the Authority and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest on the Bonds and Additional Bonds (to the extent such Additional Bonds were issued as tax exempt Bonds), and (2) this Lease will remain the legal, valid, binding and enforceable obligation of the City;

(ii) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Rental Payments as provided in Section 3.06 hereof the City shall have notified any rating agency then providing a rating on the Bonds and shall deposit moneys with the Trustee in advance for payment of Rental Payments from the proceeds of Additional Bonds or from special funds of the City or other moneys, the application of which would not, in the opinion of Bond Counsel (a copy of which shall have been delivered to the Trustee), result in such Rental Payments constituting indebtedness of the City in contravention of the Constitution and laws of the State; and

(iii) The City shall certify to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation.

**Section 5.02 Maintenance and Utilities.** Throughout the term of this Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and

replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Rental Payments, the Authority agrees to provide only the Property.

**Section 5.03 Installation of City's Equipment.** The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City or any sublessee from purchasing items to be installed pursuant to this Section under a conditional sale or lease purchase contract, 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 Property.

## **ARTICLE VI**

### **INSURANCE**

#### **Section 6.01 Commercial General Liability and Property Damage Insurance; Workers' Compensation Insurance.**

(a) The City shall maintain or cause to be maintained, throughout the term of this Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided such self-insurance complies with the provisions of Section 6.04 hereof. The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance shall have been paid.

(b) The City shall maintain or cause to be maintained, throughout the term of this Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the provisions of Section 6.04 hereof.

(c) The City shall maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which shall include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to this subsection may be subject to a deductible in an amount not to exceed \$500,000. The City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the provisions of Section 6.04 hereof.

(d) The City shall maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to subsection (c) of this Section in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the provisions of Section 6.04 hereof.

(e) The insurance required by this Section shall be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes hereof.

**Section 6.02 Title Insurance.** The City shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2025 Bonds and the initial aggregate principal amount of any Additional Bonds issued after the Closing Date. Such policy or policies shall insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate hereunder in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in Section 5.03 of the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or this Lease Agreement or required thereby or hereby shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Bond Owners.

**Section 6.03 Additional Insurance Provision; Form of Policies.** The City shall pay or cause to be paid when due the premiums for all insurance policies required by Section 6.01 hereof. All such policies shall provide that the Trustee shall be given 30 days' notice of the expiration thereof or any intended cancellation thereof. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City shall cause to be delivered to the Trustee on or before August 15 each year, commencing August 15, 2025, a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the requirements of this Article or, if applicable that the City maintains such insurance through self-insurance as provided in Section 6.04. The Trustee shall be entitled to rely upon said Certificate of the City as to the City's compliance with this Article. The Trustee shall not be responsible for the sufficiency of coverage or amounts of such policies.

**Section 6.04 Self-Insurance.** Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance shall be deemed to be self-insurance for purposes hereof. Any self-insurance maintained by the City pursuant to this Article shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by the City's Risk Manager, a professionally certified risk manager, or an independent insurance consultant;

(b) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated on an annual basis by the City's Risk Management Department, a professionally certified risk manager or an independent insurance consultant and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of the City's Risk Management Department, a professionally certified risk manager or an independent insurance consultant, as applicable; and

(c) in the event that the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, shall be maintained.

## **ARTICLE VII**

### **DEFAULTS AND REMEDIES**

#### **Section 7.01 Defaults and Remedies.**

(a) (i) If the City shall fail (A) to pay any Rental Payment payable hereunder when the same becomes due and payable, time being expressly declared to be of the essence in this Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained herein or in the Indenture to be kept or performed by the City, or (ii) upon the happening of any of the events specified in this subsection or in subsection (b) of this Section, the City shall be deemed to be in default hereunder and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to this Lease Agreement. The City shall in no event be in default in the observance or performance of any covenant, condition or agreement in this Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City shall have failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate this Lease Agreement in the manner hereinafter provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as hereinafter provided for in subparagraph (2) hereof, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including,

without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under this Lease Agreement shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law or acts of the parties hereto, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating this Lease Agreement, (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions hereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate this Lease Agreement in the manner provided for in subparagraph (1) hereof, the City shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of this Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of Rental Payments hereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments herein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as herein provided, the City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City hereby indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of this Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of this Lease Agreement irrespective of the use or 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 City the right to terminate this Lease Agreement shall vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) hereof. The City further agrees to pay the Authority the cost of any alterations or additions to the



Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as herein provided and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in this Lease Agreement or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as hereinafter provided for, or (ii) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general assignment for the benefit of the City's creditors, or (iii) the City shall abandon or vacate the Property, then the City shall be deemed to be in default hereunder.

(c) In addition to the other remedies set forth in this Section, upon the occurrence of an event of default, the Authority and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees shall be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided herein.

Each and all of the remedies given to the Authority hereunder or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege hereunder shall not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this Section shall include, but not be limited to, re-letting by means of the operation by the Authority of the

Property. If any statute or rule of law validly shall limit the remedies given to the Authority hereunder, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of this Lease Agreement, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority hereunder.

Notwithstanding anything to the contrary contained in this Lease Agreement, the Authority shall have no right upon a default hereunder by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in this Lease Agreement, the termination of this Lease Agreement by the Authority and its assignees on account of a default by the City under this Section shall not effect or result in a termination of the Ground Lease.

**Section 7.02 Waiver.** Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition hereof, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments hereunder shall not be, or be construed to be, a waiver of any term, covenant or condition of this Lease Agreement.

## **ARTICLE VIII**

### **EMINENT DOMAIN; PREPAYMENT**

**Section 8.01 Eminent Domain.** If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) shall be taken under the power of eminent domain, the term hereof shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of Section 3.06 hereof. So long as any Bonds shall be Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the redemption of Bonds as provided in subsection (a) of Section 4.01 of the Indenture, in the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued and in Section 5.03 of the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture and hereunder, have been fully paid, shall be paid to the Authority and to the City as their respective interests may appear.

**Section 8.02 No Optional Prepayment.** The Base Rental Payments attributable to the Series 2025 Bonds are subject to prepayment at the option of the City.

## ARTICLE IX

### COVENANTS

**Section 9.01 Right of Entry.** The Authority and its assignees shall have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under this Lease Agreement, and for all other lawful purposes.

**Section 9.02 Liens.** In the event the City shall at any time during the term of this Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

**Section 9.03 Quiet Enjoyment.** The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained, shall at all times during the term of this Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

**Section 9.04 Authority Not Liable.** The Authority and its directors, officers, agents and employees, shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City shall, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City also covenants and agrees, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to this Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this Section, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director,

member, officer or employee thereof, by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer employee thereof, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

**Section 9.05 Assignment and Subleasing.** This Lease Agreement may not be assigned by the City. The City may sublease the Property or any portion thereof to any other person or entity for any other purpose, subject to the satisfaction of all of the following conditions (a) through (d) below:

(a) this Lease Agreement and the obligation of the City to make all Rental Payments hereunder shall remain the primary obligation of the City;

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

(c) any sublease of the Property by the City shall explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(d) the City shall furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

**Section 9.06 Title to Property.** Upon the termination or expiration of this Lease Agreement (other than as provided in Section 7.01 and Section 8.01 hereof), and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Property shall vest in the City. Upon any such termination or expiration, the Authority shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

**Section 9.07 Authority's Purpose.** The Authority covenants that, prior to the discharge of this Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

**Section 9.08 Representations of the City.** The City represents and warrants to the Authority that (a) the City has the full power and authority to enter into, to execute and to deliver this Lease Agreement, the Ground Lease, and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease Agreement, the Ground Lease, and the Indenture, and (b) the Property will be used in the performance of essential governmental functions.

**Section 9.09 Representation of the Authority.** The Authority represents and warrants to the City that the Authority has the full power and authority to enter into, to execute and to deliver this Lease Agreement, the Ground Lease, the Assignment Agreement and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease Agreement, the Ground Lease, the Assignment Agreement and the Indenture.

## ARTICLE X

### NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE

**Section 10.01 No Consequential Damages.** In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Lease Agreement or the City's use of the Property.

**Section 10.02 Use of the Property.** The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Lease Agreement. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under this Lease Agreement.

**Section 10.03 Substitution or Release of the Property.** The City shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from this Lease Agreement. All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution or release of Property pursuant to this subsection, there shall be no reduction in or abatement of the Base Rental Payments due from the City hereunder as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are hereby made conditions precedent to such substitution or release:

(a) the City shall have found (as set forth in a certificate delivered by the City to the Trustee) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum annual Base Rental Payments payable by the City in any Rental Period, during the remaining term of this Lease Agreement, as determined by the City on the basis of commercially reasonable evidence of the fair rental value of the Property, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City shall have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in Section 6.02 hereof;

(c) the City shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee shall have executed, and the City shall have caused to be recorded with the Santa Cruz County Clerk – Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained herein and in the Ground Lease;

(i) the City shall certify to the Trustee that any substitution shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.

**Section 11.03 Validity and Severability.** If for any reason this Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City hereunder, including the covenant to pay Rental Payments, is unenforceable for the full term hereof; then and in such event this Lease Agreement is and shall be deemed to be a lease under which the Rental Payments are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Property, and all of the terms, provisions and conditions of this Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

**Section 11.04 Net-Net-Net Lease.** This Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the City hereby agrees that the Rental Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

**Section 11.05 Taxes.** The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of this Lease Agreement as and when the same become due.

The City or any sublessee may, at the City’s or such sublessee’s expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

**Section 11.06 Section Headings.** All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Lease Agreement.

**Section 11.07 Amendments.**

(a) This Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City hereunder and thereunder may be amended at any time by an amendment hereto or thereto which shall become binding upon execution and delivery by the Authority and the City, but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment shall (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected, or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of this Lease Agreement or the Ground Lease.

(b) This Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City hereunder and thereunder may also be amended at any time by an amendment hereto or thereto which shall become binding upon execution by the Authority and the City, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed herein or therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved herein or therein to or conferred herein or therein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or therein or in regard to questions arising hereunder or thereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith or therewith, and which shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of Section 10.03 hereof;

(v) to provide for the issuance of Additional Bonds in accordance with Article III of the Indenture including, without limitation, to increase the Base Rental Payments payable by the City hereunder and to add or substitute property as necessary; or

(vi) to make such other changes herein or therein or modifications hereto or thereto as the Authority or the City may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel.

**Section 11.08 Assignment.** The City and the Authority hereby acknowledge the assignment of this Lease Agreement (except for the Authority's obligations and its rights to give consents or approvals hereunder), and the Base Rental Payments payable hereunder, to the Trustee pursuant to the Assignment Agreement. To the extent that this Lease Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of this Lease Agreement, the Trustee is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

**Section 11.09 Execution.** This Lease Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Lease Agreement.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*



**IN WITNESS WHEREOF**, the Authority and the City have caused this Lease Agreement to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY OF WATSONVILLE

By: \_\_\_\_\_  
TAMARA VIDES  
CITY MANAGER

ATTEST:

By: \_\_\_\_\_  
IRWIN I. ORTIZ  
CITY CLERK

WATSONVILLE PUBLIC FINANCE AUTHORITY

By: \_\_\_\_\_  
TAMARA VIDES  
EXECUTIVE DIRECTOR

ATTEST:

By: \_\_\_\_\_  
IRWIN I. ORTIZ  
SECRETARY OF THE BOARD

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

**EXHIBIT A**

**LEGAL DESCRIPTION OF THE PROPERTY**

## **EXHIBIT B**

### **DESCRIPTION OF THE PROJECT**

The design, acquisition, construction and/or installation of certain public capital improvements to be located in the City of Watsonville, including some or all of the following: \_\_\_\_\_, and other capital improvements subject to the approval of Bond Counsel.

**EXHIBIT C**

**BASE RENTAL PAYMENT SCHEDULE**

<i>Base Rental Deposit Date (Fifth Business Day Prior to)</i>	<i>Principal Component</i>	<i>Interest Component</i>	<i>Total Base Rental Payment</i>
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***Base Rental Deposit Date  
(Fifth Business Day  
Prior to)***

***Principal Component***

***Interest Component***

***Total Base Rental  
Payment***

**Total**