

ESCROW AGREEMENT

This ESCROW AGREEMENT (the “Refunding Escrow Agreement”), made and entered into as of July 1, 2016, by and between the City of Salinas, California (the “City”), and The Bank of New York Mellon Trust Company, N.A. (the “Escrow Agent”), a national banking association organized and existing under the laws of the United States, having a corporate trust office in Los Angeles, California, and being qualified to accept and administer the escrow hereby created,

WITNESSETH:

WHEREAS, the City has heretofore issued Limited Obligation Improvement Bonds City of Salinas Bella Vista III Assessment District No. 98-1, Series A-186 (the “Prior Bonds”), having the remaining outstanding principal amount of \$_____, of which \$_____ matures on September 2, 2016 and \$_____ will be redeemed in advance of maturity on September 2, 2016, pursuant to this Refunding Escrow Agreement; and

WHEREAS, The Bank of New York Mellon Trust Company, N.A., is the paying agent (the “Prior Paying Agent”) for the Prior Bonds; and

WHEREAS, the City has determined to cause the issuance and sale of its limited obligation refunding bonds (the “Acquired Obligations”) upon the security of unpaid reassessments levied upon certain parcels of land in the City of Salinas Reassessment District No. 2016 for the purpose, among other purposes, of providing moneys to the Prior Paying Agent which will be sufficient (when combined with moneys to be provided from other sources and with the interest earnings on the combined moneys) to provide for the payment on September 2, 2016 (the “Redemption Date”) of the outstanding principal amount of \$_____, accrued interest of \$_____, interest being calculated to and including the Redemption Date (the sum of such amounts for the Prior Bonds, namely \$_____, is hereinafter referred to as the “Redemption Price”); and

WHEREAS, pursuant to Section 2 of this Refunding Escrow Agreement, the City will cause a prescribed portion of the proceeds of the Reassessment Bonds to be set aside with the Escrow Agent, together with certain funds held by the City with respect to the Prior Bonds to be set aside with the Escrow Agent, in order to provide for the payment of the Redemption Price of the Prior Bonds, such proceeds and funds to be deposited in a special escrow fund to be created hereunder to be known as the Refunding Escrow to be maintained by the Escrow Agent (the “Refunding Escrow”); and

WHEREAS, the City has taken action to cause to be delivered to the Escrow Agent for credit to the Refunding Escrow certain securities consisting of direct obligations of, or obligations, the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America (the “Investment Securities”), all as listed on Schedule I attached hereto and made a part hereof, in an amount which, together with income or increment to accrue on such securities and the cash, if any, to be held uninvested in the Refunding Escrow, have been certified by Causey Demgen & Moore to be sufficient to pay when and as due the Redemption Price of the Prior Bonds;

NOW, THEREFORE, the City and the Escrow Agent hereby agree as follows:

Section 1. Establishment and Maintenance of Refunding Escrow. The Escrow Agent agrees to establish and maintain, until the Prior Bonds have been paid in full, a fund designated as the "Refunding Escrow," and to hold the securities, investments and moneys therein at all times as a special and separate escrow fund (wholly segregated from all other securities, investments or moneys on deposit with the Escrow Agent). All securities, investments and moneys in the Refunding Escrow are hereby irrevocably pledged, subject to the provisions of Section 2 hereof, to secure the payment when due of the Redemption Price of the Prior Bonds.

Section 2. Funding and Investment of the Refunding Escrow.

(a) To establish funding of the Refunding Escrow, the City agrees that not later than July 8, 2016 (the "Closing Date"), the City will transfer to the Paying Agent (as defined below) certain funds currently held by the City with respect to the Prior Bonds and will then cause the following moneys, in the total amount of \$_____, to be transferred by the Fiscal Agent as defined below to the Escrow Agent for deposit in the Refunding Escrow:

(1) From The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent") under the Fiscal Agent Agreement (the "Fiscal Agent Agreement") dated as of July 1, 2016, between the City and the Fiscal Agent, the amount of \$_____ from the proceeds of sale of the City's Reassessment District No. 2016 Limited Obligation Improvement Bonds 2016 Series A (the "2016 Bonds"); and

(2) from The Bank of New York Mellon Trust Company, N.A., as Paying Agent (the "Paying Agent"), following transfer to the Fiscal Agent from the City, the sum of \$_____, representing the amount held by the City in the Redemption Fund for the Prior Bonds, and the sum of \$_____, representing the amount held by the City in the [Special Reserve Fund] for the Prior Bonds [and other funds], for a total amount from the Paying Agent of \$_____ on account of funds to be transferred to the Paying Agent by the City on account of the Prior Bonds; and

To the extent that the available moneys to be transferred pursuant to the foregoing subsection (a)(2) from the City to the Paying Agent on account of the Redemption Fund and the Special Reserve Fund for the Prior Bonds exceed the amounts specified above, the City will instruct the Fiscal Agent to reduce the transfer to be made by the Fiscal Agent pursuant to the foregoing subsection (a)(1) from proceeds of sale of the 2016 Bonds by a corresponding amount, with the result that the total amount transferred to the Escrow Agent will remain at \$_____.

(b) The City hereby directs the Escrow Agent to purchase, for the account of the Refunding Escrow, the Investment Securities listed on Schedule I hereto. Except as otherwise provided in this section, the Escrow Agent shall not reinvest any remaining portion of the Refunding Escrow and shall hold such portion uninvested in the Refunding Escrow. The Escrow Agent is hereby authorized and empowered to deposit uninvested monies held hereunder from time to time in demand deposit accounts, without payment for interest thereon as provided hereunder, established at commercial banks that are corporate affiliates of the Escrow Agent.

(c) The Paying Agent is hereby notified of the irrevocable election of the City to pay on the Redemption Date the Redemption Price of the Refunded Bonds called for redemption on

such date. The City hereby requests and irrevocably instructs the Paying Agent to mail a notice of redemption in accordance with the Prior Indenture, which notice instructions shall be substantially in the form set forth in Exhibit A to Schedule B attached hereto. The City hereby requests and irrevocably instructs the Paying Agent to mail a notice that the deposit of moneys has been made with it as Escrow Agent and that the projected withdrawals from the Escrow Fund have been calculated to be adequate to pay the Redemption Price of the Prior Bonds when due, which notice instructions shall be substantially in the form set forth in Exhibit B to Schedule B attached hereto. Upon payment in full of the Prior Bonds, the Escrow Agent shall transfer any moneys remaining in the Escrow Fund to the Paying Agent for disbursement in accordance with the Prior Resolution and this Agreement shall terminate. The City hereby acknowledge that the deposit of the Redemption Price into the Escrow Fund shall result in the defeasance of the Prior Bonds and that upon such deposit all prerequisites to the refunding of the Prior Bonds shall have been satisfied in accordance with the Prior Resolution and any moneys in excess of the amount required for defeasance of the Prior Bonds as shown in Schedule C hereto shall be released from the Escrow Fund and applied as set forth in Section 1(a) hereof.

(d) Upon the written direction of the City, but subject to the conditions and limitations herein set forth, the Escrow Agent shall purchase substitute Investment Securities with the proceeds derived from the sale, transfer, redemption or other disposition of Investment Securities then on deposit in the Refunding Escrow in accordance with the provisions of this Section 2(c). Such sale, transfer, redemption or other disposition of such Investment Securities then on deposit in the Refunding Escrow and substitution of other Investment Securities of the City are permitted hereunder but only by a simultaneous transaction and only if: (i) a nationally recognized firm of Independent Certified Public Accountants shall certify that (a) the Investment Securities to be substituted, together with the Investment Securities which will continue to be held in the Refunding Escrow, will mature in such principal amounts and earn interest in such amounts and, in each case, at such times so that sufficient moneys will be available from maturing principal and interest on such Investment Securities held in the Refunding Escrow together with any uninvested moneys, to make all payments required by Section 3 hereof which have not previously been made, and (b) the amounts and dates of the anticipated payments by the Escrow Agent of the Redemption Price will not be diminished or postponed thereby, and (ii) the Escrow Agent shall receive an unqualified opinion of nationally recognized bond counsel to the effect that the sale, transfer, redemption or other disposition and substitution of Investment Securities will not adversely affect the exclusion of interest on the Prior Bonds from gross income for federal income tax purposes.

(e) Upon the written direction of the City, but subject to the conditions and limitations herein set forth, the Escrow Agent will apply any moneys received from the maturing principal of or interest or other investment income on any Investment Securities held in the Refunding Escrow, or the proceeds from any sale, transfer, redemption or other disposition of Investment Securities pursuant to Section 2(c) not required for the purposes of said Section, as follows: (A) to the extent such moneys will not be required at any time for the purpose of making a payment required by Section 3 hereof, as shall be certified to the Escrow Agent by a nationally recognized firm of Independent Certified Public Accountants, such moneys shall be paid over to the City upon the written direction of the City as received by the Escrow Agent, free and clear of any trust, lien, pledge or assignment securing the Prior Bonds or otherwise existing hereunder or under the Prior Resolution after provision for payment of amounts due to either of the Prior Paying Agent, and the Escrow Agent pursuant to Section 5 and 11 hereof; and (B) to the extent such moneys will be required for such purpose at a later date, shall, to the extent practicable, be invested or reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the Redemption

Price (provided that (i) the amount of the funds to be realized from time to time from such investment or reinvestment shall be certified by a nationally recognized firm of Independent Certified Public Accountants and (ii) the City shall deliver to the Escrow Agent an opinion of nationally recognized bond counsel to the effect that such investment or reinvestment will not adversely affect the exclusion of interest on the Prior Bonds from gross income for federal income tax purposes).

(f) The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Refunding Escrow Agreement and in full compliance with the provisions hereof.

Section 3. Payment and Prepayment of the Prior Bonds. Except as otherwise provided in Section 2, the City hereby requests and irrevocably instructs the Escrow Agent to deposit in the Refunding Escrow the principal of and interest on the Investment Securities held for the account of the Refunding Escrow promptly as such principal and interest become due, and to transfer, subject to the provisions of Section 2 hereof, such principal and interest, together with any other moneys and the principal of and interest on any other securities deposited in the Refunding Escrow, to the Prior Paying Agent for the redemption of the remaining outstanding Prior Bonds (including the redemption premium thereon) on September 2, 2002. Upon payment in full of the Prior Bonds, the Escrow Agent shall transfer any moneys or securities remaining in the Refunding Escrow to the City and, after provision for payment of amounts due the Prior Paying Agent and the Escrow Agent pursuant to Section 5 and 11 hereof, this Refunding Escrow Agreement shall terminate. The Refunding Escrow cash flow for the Refunding Escrow is set forth in Schedule II attached hereto.

Section 4. Notice of Possible Deficiencies. If at any time the Escrow Agent has actual knowledge that the moneys in the Refunding Escrow, including the anticipated proceeds of the Investment Securities, will not be sufficient to make all payments required by Section 3 hereof, the Escrow Agent shall notify the City in writing as soon as is reasonably practicable, of such fact, the amount of such deficiency and if known, the reason therefor.

Section 5. Fees and Costs.

(a) The City shall pay to the Escrow Agent from time to time reasonable compensation for all services rendered under this Refunding Escrow Agreement. The parties hereto agree that the duties and obligations of the Escrow Agent shall be as expressly provided herein, and no implied duties or obligations shall be read into this Refunding Escrow Agreement against the Escrow Agent.

(b) The Escrow Agent shall also be entitled to additional fees and reimbursements for costs incurred, including but not limited to legal and accountants' services, involving this Refunding Escrow Agreement.

(c) The fees of and the costs incurred by the Escrow Agent shall in no event be deducted or payable from, or constitute a lien against, the Refunding Escrow.

Section 6. Merger or Consolidation. Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under this Refunding Escrow Agreement, shall be the successor of such

Escrow Agent without the execution or filing of any paper or any further act, notwithstanding anything herein to the contrary.

Section 7. Resignation of Escrow Agent. The Escrow Agent may at any time resign by giving written notice to the City of such resignation. The City shall promptly appoint a successor Escrow Agent. Resignation of the Escrow Agent will be effective only upon acceptance of appointment of a successor Escrow Agent. If the City does not appoint a successor within 30 days after receiving notice from the Escrow Agent, the Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, which court may thereupon, after such notice, if required by law, appoint a successor Escrow Agent. After receiving a notice of resignation of an Escrow Agent, the City may appoint a temporary Escrow Agent to replace the resigning Escrow Agent until the City appoints a successor Escrow Agent. Any such temporary Escrow Agent so appointed by the City shall immediately and without further act be superseded by the successor Escrow Agent so appointed.

Section 8. Severability. If any section, paragraph, sentence, clause or provision of this Refunding Escrow Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, sentence, clause or provisions shall not affect any of the remaining provisions of this Refunding Escrow Agreement.

Section 9. Execution of Counterparts. This Refunding Escrow Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10. Applicable Law. This Refunding Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 11. Indemnification. The City agrees to indemnify, hold harmless and defend the Escrow Agent to the extent permitted by law against any and all losses, damages, claims, actions, liabilities, costs and expenses of whatever nature, kind or character (including, without limitation, attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) which may be imposed on, or incurred by or asserted against the Escrow Agent directly or indirectly arising out of or related to any claim, suit, investigation, proceeding or action commenced or threatened as a result the execution by the Escrow Agent of this Refunding Escrow Agreement, the performance of its obligations hereunder, or of the payment of the Prior Bonds. This indemnification shall apply whether any such claim, suit, investigation, proceeding or action is based upon (i) the interference with or breach of or alleged interference with or alleged breach of any existing contract in connection with the Prior Bonds, (ii) any untrue statement or alleged untrue statement of a material fact or omission required to be stated in any offering document with respect to the Prior Bonds necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or (iii) any other wrongful act or alleged wrongful act of the City related to the payment of the Prior Bonds; provided, however, that this indemnification shall not cover any losses or expenses incurred by the Escrow Agent as a result of its negligence or willful misconduct. The agreements of the City hereunder shall survive the discharge of the Prior Resolution and the delivery of and payment for the Acquired Obligations.

Section 12. Immunities and Liability of Escrow Agent.

(a) The Escrow Agent undertakes to perform only such duties as are expressly and specifically set forth in this Refunding Escrow Agreement, and no implied duties or obligations shall be read into this Refunding Escrow Agreement against Escrow Agent.

(b) The Escrow Agent shall not have any liability hereunder except to the extent of its own negligence or willful misconduct. In no event shall the Escrow Agent be liable for any special, indirect or consequential damages, even if the Escrow Agent or the City knows of the possibility of such damages. The Escrow Agent shall have no duty or responsibility under this Refunding Escrow Agreement in the case of any default in the performance of the covenants or agreements contained in the resolutions and fiscal agent agreements relating to the Prior Bonds. The Escrow Agent is not required to resolve conflicting demands to money or property in its possession under this Refunding Escrow Agreement.

(c) The Escrow Agent may consult with counsel of its own choice, and the opinion of such counsel shall be full and complete authorization to take or suffer in good faith any action hereunder in accordance with such opinion of counsel.

(d) The Escrow Agent shall not be responsible for any of the recitals or representations contained herein.

(e) The Escrow Agent may become the owner of, or acquire any interest in, any of the Prior Bonds with the same rights that it would have if it were not the Escrow Agent and may engage or be interested in any financial or other transaction with the City.

(f) The Escrow Agent shall not be liable for the accuracy of any calculations provided as to the sufficiency of the moneys or securities deposited with it to pay the prescribed Prior Bonds.

(g) The Escrow Agent shall not be liable for any action or omission of the City under this Refunding Escrow Agreement.

(h) Whenever in the administration of this Refunding Escrow Agreement the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be deemed to be conclusively proved and established by a certificate of any authorized representative of the City, and such certificate shall, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be full warrant to the Escrow Agent for any action taken or suffered in good faith by it under the provisions of this Refunding Escrow Agreement.

(i) The Escrow Agent may conclusively rely, as to the truth and accuracy of the statements and correctness of the opinions and the calculations provided to it in connection with this Refunding Escrow Agreement and shall be protected in acting, or refraining from acting, upon any written notice, instruction, request, certificate, document or opinion furnished to the Escrow Agent in compliance with this Refunding Escrow Agreement and reasonably believed by the Escrow Agent to

have been signed or presented by the proper party, and it need not investigate any fact or matter stated in such notice, instruction, request, certificate or opinion.

Section 13. Termination and Modification of Agreement. Upon final payment in full of the principal of and interest on the Prior Bonds pursuant to this Refunding Escrow Agreement and all of the fees and expenses of the Escrow Agent as described above, all obligations of the Escrow Agent under this Refunding Escrow Agreement shall cease and terminate, except for the obligation of the Escrow Agent to pay or cause to be paid to the owners of the Prior Bonds not presented for payment all sums due thereon and the obligation of the City to pay to the Escrow Agent any amounts due and owing to the Escrow Agent hereunder; provided, however, the obligations of the Escrow Agent with respect to the payment of the Prior Bonds shall cease and terminate two (2) years after the date on which the same shall have become due as described hereunder. This Refunding Escrow Agreement may not be amended or modified without the unanimous prior written consent of the Owners of the Prior Bonds.

IN WITNESS WHEREOF, the City of Salinas, California, and The Bank of New York Mellon Trust Company, N.A., as Escrow Agent, have caused this Refunding Escrow Agreement to be executed each on its behalf by duly authorized officers as of the day and year first above written.

CITY OF SALINAS, CALIFORNIA

By: _____
Its: City Manager

ATTEST:

City Clerk

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Escrow Agent

By: _____
Its: Authorized Officer

SCHEDULE I
INVESTMENT SECURITIES

United States Treasury Certificate of Indebtedness - State and Local Government Series, as follows:

| <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> |
|-------------------------|----------------------|-------------------|----------------------|
| \$ | ____% | 7/8/16 | 9/2/16 |

\$____ will be held by the Escrow Agent in the Escrow Fund in cash.

SCHEDULE II

REFUNDING ESCROW CASH FLOW

| <u>Date</u> | <u>Total Cash Receipt From U.S. Treasury SLGs (Exhibit A-1)</u> | <u>Cash Disbursement From Escrow (Exhibit B)</u> | <u>Cash Balance</u> |
|-------------------|---|--|---------------------|
| Beginning Balance | | | \$_____ |
| 02-Sep-16 | \$_____ | \$_____ | 0.00 |
| | <u>\$_____</u> | <u>\$_____</u> | |

EXHIBIT A

**NOTICE OF REDEMPTION OF OUTSTANDING
CITY OF SALINAS
BELLA VISTA III ASSESSMENT DISTRICT NO 98-1, SERIES A-186
LIMITED OBLIGATION IMPROVEMENT BONDS**

[TO BE INSERTED]

EXHIBIT B

**NOTICE OF DEFEASANCE OF OUTSTANDING
CITY OF SALINAS
BELLA VISTA III ASSESSMENT DISTRICT NO 98-1, SERIES A-186
LIMITED OBLIGATION IMPROVEMENT BONDS
(the “Refunded Bonds”)**

| <u>CUSIP</u> | <u>Maturity</u> <u>(September 2)</u> | <u>Rate</u> | <u>Amount</u> | <u>Redemption</u> <u>Price</u> |
|--------------|---|-------------|---------------|-----------------------------------|
|--------------|---|-------------|---------------|-----------------------------------|

Notice is hereby given to the holders of the above-captioned Bonds (the “Refunded Bonds”) that there has been deposited with The Bank of New York Mellon Trust Company, N.A., as Escrow Agent, as permitted by Section _____ of that certain Resolution No. _____ adopted September 8, 1998 (the “Resolution”), by the City of Salinas (the “City”) under which The Bank of New York Mellon Trust Company, N.A., serves as Paying Agent (the “Paying Agent”), (i) moneys which will be sufficient and available to pay on September 2, 2016 the payment of interest then due on the Refunded Bonds and redeem on September 2, 2016 the Refunded Bonds maturing on and after September 2, 2016 at the redemption price set forth above; and (ii) the Paying Agent has been irrevocably instructed to redeem such outstanding Refunded Bonds on September 2, 2016.

The City has previously instructed the Paying Agent to mail a notice of redemption for the Refunded Bonds in accordance with the terms of the Resolution.

All obligations of the City under the Resolution with respect to the Refunded Bonds have ceased and terminated except as set forth in Section _____ of the Resolution.

[As a result of the defeasance of the Refunded Bonds, the Continuing Disclosure Certificate (the “Disclosure Agreement”) dated as of _____, 1996, by the City has terminated. Accordingly, all obligations of the City under the Disclosure Agreement have been terminated and the City shall no longer file annual reports or notices of significant events in connection with the Refunded Bonds.]

Dated this __th day of _____, 2016.

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.,
as Fiscal Agent**