

ESCROW AGREEMENT

Relating to the Prepayment of:

**CITY OF DESERT HOT SPRINGS
Certificates of Participation
(Interim Cash Flow Financing)**

and the Redemption of:

**CITY OF DESERT HOT SPRINGS
Judgment Obligation Bonds**

This ESCROW AGREEMENT (this "Agreement"), made and entered into as of _____ 1, 2017, by and among the CITY OF DESERT HOT SPRINGS, California, a municipal corporation and public body, corporate and politic, organized and existing under and by virtue of the Constitution and laws of the State of California (the "**City**"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, national banking association duly organized and existing under the laws of the United States of America, as escrow agent (the "**Escrow Agent**").

BACKGROUND:

1. The City has previously caused the execution and delivery of the City of Desert Hot Springs Certificates of Participation (Interim Cash Flow Financing) in the aggregate initial principal amount of \$3,060,000 in 2004 (the "**2004 Certificates**") for the purpose of financing certain obligations of the City. The City has previously issued the City of Desert Hot Springs Judgment Obligation Bonds in the aggregate initial principal amount of \$9,725,000 in 2004 (the "**2004 Bonds**," and together with the 2004 Certificates, the "**Prior Obligations**") for the purpose of financing certain obligations of the City.

2. The City is proceeding to refinance the outstanding Prior Obligations and to borrow additional funds to help to finance in whole or in part the acquisition, construction, renovation and remodeling of various public capital improvements on property owned by the City.

3. The 2004 Certificates are subject to optional prepayment on any date, in whole or in part, at the principal amount represented thereby, plus accrued interest thereon to the date of prepayment, without premium. The 2004 Bonds are subject to optional redemption, in whole or in part, on any Interest Payment Date (being each March 1 and September 1), at a redemption price equal to the principal amount of 2004 Bonds redeemed, plus accrued interest thereon to the date of redemption, without premium.

4. In order to provide funds to refinance the outstanding Prior Obligations, the Authority has issued its Desert Hot Springs Public Financing Authority 2017 Lease Revenue Bonds in the aggregate principal amount of \$_____ (the "**2017 Bonds**") under an Indenture of Trust dated as of _____ 1, 2017 (the "**2017 Indenture**") by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "**2017 Trustee**").

5. The City and the Escrow Agent wish to enter into this Agreement for the purpose of providing the terms and conditions relating to the deposit and application of amounts sufficient for the payment and prepayment/redemption of the Prior Obligations as set forth herein.

NOW, THEREFORE, in consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

Section 1. Appointment of Escrow Agent. The City hereby appoints the Escrow Agent as escrow agent for all purposes of this Agreement and in accordance with the terms and provisions of this Agreement, and the Escrow Agent hereby accepts such appointment.

Section 2. Establishment of Escrow Fund. There is hereby created the Escrow Fund to be held by the Escrow Agent, separate and apart from any funds or accounts of the Escrow Agent or the City, as an irrevocable escrow securing payment of principal of and interest on the Prior Obligations as hereinafter set forth.

All cash and Defeasance Securities (as defined herein) in the Escrow Fund are hereby irrevocably pledged as a special fund for the payment and prepayment of the Prior Obligations in accordance with the terms hereof. If at any time the Escrow Agent receives actual knowledge that the cash and amounts in the Escrow Fund will not be sufficient to make any payment required by Section 4 hereof, the Escrow Agent will notify the City of such fact and the City will immediately cure such deficiency from any source of legally available funds.

As used herein, the term "Defeasance Securities" means the federal securities set forth on Exhibit A hereto and hereby incorporated herein.

Section 3. Deposit into Escrow Fund; Investment of Amounts.

(a) Concurrently with the execution and delivery of the 2017 Certificates, the City will cause to be transferred to the Escrow Agent for deposit into the Escrow Fund, the amount of \$_____, from the following sources, \$_____ of which will be held in a subaccount of the Escrow Fund hereby created and known as the "2004 Certificates Account," for the payment and prepayment of the 2004 Certificates, and \$_____ of which will be held in a subaccount of the Escrow Fund hereby created and known as the "2004 Bonds Account," for the payment and redemption of the 2004 Bonds:

2004 Certificates Account

(i) from the 2017 Trustee out of the proceeds of the 2017 Bonds, the amount of \$_____; and

(ii) from the 2004 Trustee from funds on hand related to the 2004 Certificates, the amount of \$_____.

2004 Bonds Account

(i) from the 2017 Trustee out of the proceeds of the 2017 Bonds, the amount of \$_____; and

(ii) from the 2004 Trustee from funds on hand related to the 2004 Bonds, the amount of \$_____.

(b) With respect to the aggregate \$_____ deposited into the 2004 Certificates Account of the Escrow Fund, the Escrow Agent will:

(i) invest \$_____ of the moneys deposited in the Defeasance Securities described in Exhibit A hereto; and

(ii) hold the remaining \$_____ in cash uninvested.

(c) With respect to the aggregate \$_____ deposited into the 2004 Bonds Account of the Escrow Fund, the Escrow Agent will:

(i) invest \$_____ of the moneys deposited in the Defeasance Securities described in Exhibit A hereto; and

(ii) hold the remaining \$_____ in cash uninvested.

The Defeasance Securities and cash will be deposited with and held by the Escrow Agent in the Escrow Fund solely for the uses and purposes set forth herein. The Escrow Agent will have no lien upon or right of set off against the Defeasance Securities and cash at any time on deposit in the Escrow Fund. The Escrow Agent may create such subaccounts within the Escrow Fund as it may require to accomplish the purposes of this Escrow Agreement.

Section 4. Instructions as to Application of Deposit. The total amount of Defeasance Securities and cash deposited in the Escrow Fund pursuant to Section 3 will be applied by the Escrow Agent to the payment and prepayment of the Prior Obligations in accordance with the agreements governing the Prior Obligations on the date(s) and in the amounts set forth on Exhibit B hereto. Any amounts remaining in the Escrow Fund following the full prepayment of all of the Prior Obligations will be transferred by the Escrow Agent to the 2017 Trustee, for deposit to the Lease Payment Fund established and held by the 2017 Trustee with respect to the 2017 Bonds.

Section 5. Election to Prepay; Notices. The City hereby irrevocably elects to prepay all of the 2004 Certificates outstanding on _____, 2017 on such date. The City hereby irrevocably elects to prepay all of the 2004 Bonds outstanding on September 1, 2017 on such date.

The Escrow Agent is hereby directed to give a Notice of Defeasance and Prepayment of the Prior Obligations on the issuance date of the 2017 Bonds, substantially in the form attached hereto as Exhibit C, to the Municipal Securities Rulemaking Board (MSRB)'s Electronic Municipal Market Access (EMMA) system accessible at the emma.msrb.org website.

Section 6. Compensation to Escrow Agent. From proceeds of the Prior Obligations or other lawfully available sources, the City will pay the Escrow Agent full compensation for its duties under this Agreement, including out-of-pocket costs such as publication costs, prepayment expenses, legal fees and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase of any Defeasance Securities after the date hereof. Under no circumstances will amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes.

Section 7. Immunities and Liabilities of Escrow Agent.

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

(ii) The Escrow Agent will not have any liability hereunder except to the extent of its own gross negligence or willful misconduct.

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

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

(v) The Escrow Agent will not be liable for the accuracy of any calculations provided as to the sufficiency of the moneys or Defeasance Securities deposited with it to pay the principal of, and interest on, the Prior Obligations.

(vi) The Escrow Agent will not be liable for any action or omission of the City or the Corporation under this Agreement or any related agreement.

(vii) Whenever in the administration of this Agreement the Escrow Agent deems 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 an authorized representative of the City, and such certificate will, 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 by it under the provisions of this Agreement upon the faith thereof.

(viii) The Escrow Agent may conclusively rely, as to the truth and accuracy of the statements and correctness of the opinions and the calculations provided, and will be protected and indemnified, in acting, or refraining from acting, upon any written notice, instruction, request, certificate, document or opinion furnished to the Escrow Agent 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.

(ix) The Escrow Agent may at any time resign by giving written notice to the City of such resignation. The City will promptly appoint a successor Escrow Agent by the resignation date. Resignation of the Escrow Agent will be effective upon acceptance of appointment by a successor Escrow Agent. If the City does not promptly appoint a successor, 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 any, as it may deem proper and prescribe and as may be 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 will immediately and without further act be superseded by the successor Escrow Agent so appointed.

(x) The City covenants to indemnify and hold harmless the Escrow Agent against any loss, liability or expense, including legal fees, in connection with the performance of any of its duties hereunder, except the Escrow Agent will not be indemnified against any loss, liability or expense resulting from its gross negligence or willful misconduct.

Section 8. Amendment. This Agreement may be amended by the parties hereto, (i) without the consent of the owners of the Prior Obligations, but only if such amendment is made (a) to cure, correct or supplement any ambiguous or defective provision contained herein, (b) to pledge additional security to the payment and prepayment of the Prior Obligations, or (c) to deposit additional monies for the purposes of this Agreement, or (ii) with the consent of 100% of the owners of the Prior Obligations outstanding, and only if there will have been filed with the City, the Corporation and the Escrow Agent a written opinion of Jones Hall, A Professional Law Corporation, as special counsel, stating that any such amendment will not materially adversely affect the interests of the owners of the Prior Obligations, and that any such amendment will not cause the portion of lease payments representing interest payable with respect to the Prior Obligations to become includable in the gross income of the owners thereof for federal income tax purposes.

Section 9. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

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

Section 11. Severability. In the event any provision of this Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly authorized officers all as of the date first above written.

CITY OF DESERT HOT SPRINGS

By: _____
Chief Financial Officer

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Escrow Agent**

By: _____
Vice President

EXHIBIT A
DEFEASANCE SECURITIES

2004 CERTIFICATES ACCOUNT

Type of Security	Maturity Date	Par Amount	Rate	Total Cost
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Purchase Date	Cost of Securities	Cash Deposit	Total Escrow Cost
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2004 BONDS ACCOUNT

Type of Security	Maturity Date	Par Amount	Rate	Total Cost
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Purchase Date	Cost of Securities	Cash Deposit	Total Escrow Cost
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EXHIBIT B

SCHEDULE OF PAYMENT AND PREPAYMENT/REDEMPTION

2004 CERTIFICATES

Period Ending	Principal	Interest	Principal Prepaid	Total
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2004 BONDS

Period Ending	Principal	Interest	Principal Redeemed	Total
9/1/17				

EXHIBIT C-1
NOTICE OF DEFEASANCE AND PREPAYMENT

CITY OF DESERT HOT SPRINGS
Certificates of Participation
(Interim Cash Flow Financing)

Final Maturity Date: March 1, 2023

NOTICE IS HEREBY GIVEN, by the City of Desert Hot Springs (the "City") with respect to the captioned securities (the "Certificates"), that it has defeased the Certificates set forth below as of _____, 2017 and has irrevocably elected to optionally prepay such Certificates on _____, 2017. Amounts sufficient for such prepayment have been deposited into an escrow fund held by Wells Fargo Bank National Association, for such purpose.

The Certificates that have been defeased and that the City has elected to optionally prepay on _____, 2017 consist of the following:

Maturity Date (March 1)	Principal Amount	Interest Rate	CUSIP (250416) *
2020	\$630,000	5.25%	BA1
2023	575,000	5.50%	BB9

* CUSIP data are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Capital IQ. The City and the Trustee shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of the CUSIP numbers listed above or as printed on any Bond; the CUSIP numbers are included solely for the convenience of the owners of the Certificates.

Dated: _____, 2017

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee for the Certificates and as Escrow Agent

EXHIBIT C-2
NOTICE OF DEFEASANCE AND REDEMPTION

CITY OF DESERT HOT SPRINGS
Judgment Obligation Bonds

Final Maturity Date: March 1, 2044

NOTICE IS HEREBY GIVEN, by the City of Desert Hot Springs (the "City") with respect to the captioned bonds (the "Bonds"), that it has defeased the Bonds set forth below as of _____, 2017 and has irrevocably elected to optionally redeem such Bonds on _____, 2017. Amounts sufficient for such prepayment have been deposited into an escrow fund held by Wells Fargo Bank National Association, for such purpose.

The Bonds that have been defeased and that the City has elected to optionally redeem on _____, 2017 consist of the following:

<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(25041T) *</u>
2023	\$165,000	4.75%	AA2
2024	275,000	4.75	AB0
2025	285,000	4.75	AC8
2029	1,290,000	4.75	AD6
2034	1,985,000	4.75%	AE4
2044	5,725,000	5.00%	AF1

* CUSIP data are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Capital IQ. The City and the Trustee shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of the CUSIP numbers listed above or as printed on any Bond; the CUSIP numbers are included solely for the convenience of the owners of the Certificates.

Dated: _____, 2017

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee for the Bonds and as Escrow Agent