

LEASE

THIS LEASE is made at Santa Cruz, California, as of the first day of July, 2008, between the City of Santa Cruz, a California Municipal Corporation ("Landlord") and the Santa Cruz City/County Library System, a California Joint Powers Authority (herein called "Tenant").

Section 1. Premises

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms and conditions hereinafter set forth, a portion of that certain building known as the "Union/Locust Building", 117 Union Street, Santa Cruz, California. Specifically the Union/Locust Building is comprised of 21,845 square feet and Tenant is hereby leasing 14,104 square feet of the Union/Locust Building or sixty-seven percent (67%) of the entire Union/Locust Building (the leased portion of the Union/Locust Building is hereinafter referred to as "the Premises"). A diagram of the Union/Locust Building and the Premises is attached hereto as Exhibit A and incorporated herein by reference.

Section 2. Term

The term of this Lease shall be fifty (50) years and shall commence on July 1, 2008, and terminate on June 30, 2058. So long as Tenant is not in default under any of the provisions of this Lease, Tenant shall have the right to extend the term of this Lease for one (1) additional thirty (30) year period, said extended term being subject to the same terms and conditions contained in this Lease. Tenant shall exercise its right to extend the term of this Lease by giving Landlord written notice of its intent to extend at least 180 days but not earlier than 360 days prior to the expiration date of the initial term.

Section 3. Early Termination.

Tenant shall have the right to terminate this Lease without penalty or liability if Tenant's Joint Powers Authority Board of Directors reasonably determines that funding to operate Tenant's

City/County Library System is currently insufficient to operate that system and will remain insufficient to do so during the foreseeable future due to the loss or significant diminution of a revenue source upon which Tenant relies for operating funds such as the existing specially earmarked sales tax which, as of the date of this Lease, generates approximately fifty percent (50%) of the operating revenue for Tenant's Library System. Prior to exercising its early termination right conferred by this Section, Tenant shall meet with Landlord and make a good faith effort to renegotiate the terms of this Lease so as to obviate the need for early termination.

Section 4. Rent

Tenant shall pay to Landlord base rent in accordance with the monthly rent schedule attached hereto as Exhibit B. Rent shall be payable on the first day of each and every month thereafter. After fiscal year 2037 tenant shall not be required to pay rent.

Section 5. Charges to Tenant

In addition to the payment of rent, Tenant shall be responsible for and either pay for directly or pay to Landlord during the term of the Lease Tenant's pro-rata share of any and all real property taxes and assessments, insurance premiums and utility charges. Unless stated otherwise elsewhere in this Lease, Tenant's pro rata share of the real property taxes and assessments, insurance premiums and utility charges for the Union/Locust Building shall be sixty-seven percent (67%). If during the Lease term the square footage of the building leased by Tenant is adjusted, Tenant's pro rata share will be correspondingly adjusted. Where utilities are metered to the Premises and/or directly billed to Tenant, Tenant shall pay utility charges directly to the utility provider.

The charges made to Tenant pursuant to this Section shall be payable in advance on the first (1st) day of each month of the term of the Lease, including any extensions, due in an amount

equal to 1/12th of Tenant's percentage of the total charges reasonably estimated by Landlord to be payable during the calendar year in which such month falls. Tenant shall pay a prorated amount of Tenant's percentage of the charges for any partial month of this Lease. After the end of each calendar year, Landlord will give to Tenant a written statement of the actual charges during the preceding year. Within thirty (30) days after said statement is given, an adjustment will be made to reconcile the estimated charges with the actual charges. If the adjustment is in favor of Tenant, Landlord shall credit the sum against the next succeeding month's (or months') charges due from Tenant. If the adjustment is in favor of Landlord, Tenant shall pay said sum to Landlord within thirty (30) days from the date Tenant receives Landlord's written statement. Landlord's failure to submit a year-end reconciliation statement to Tenant shall not waive Landlord's right to subsequently submit such a statement for the relevant year; in any case, Tenant shall not be obligated to make payment on such statement until thirty (30) days after receipt of Landlord's submittal. Tenant shall have the right, at such reasonable time and place as Landlord may designate, to inspect and audit Landlord's books and records relating to the operation and maintenance of the Union/Locust Building, for the purpose of verifying Landlord's adjusted year-end statement of charges. Tenant may employ an independent public accounting firm to conduct the audit. The costs of the audit shall be paid by Tenant, unless the audit reveals that Tenant has been overcharged by five percent (5%) or more, in which case Landlord shall bear the costs of the audit.

Section 6. Use

The Premises are to be used for office purposes, i.e., system services, technical services and administrative services, including shipping and receiving. The business conducted by the Tenant on the Premises shall be of a character and nature that will not be detrimental to the value of the Union/Locust Building real property. No use shall be made or permitted to be

made of the Premises, nor acts done in or about the Premises, which will in any way conflict with any law, ordinance, rule or regulation affecting the occupancy or use of the Premises, including, but not limited to, laws or regulations relating to the accessibility or usability of the Premises by disabled persons, which are or may hereafter be enacted or promulgated by any public authority, or which will increase the existing rate of insurance upon the building or cause a cancellation or increase in cost of any insurance policy covering the building or any part thereof. Nor shall Tenant permit to be kept, or use in or about the Premises, any article which may be prohibited by the standard form of fire insurance policy. Tenant shall not commit, or suffer to be committed, any waste upon the Premises, or any public or private nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant on Landlord's property.

Section 7. Insurance

(a) Landlord shall maintain fire and casualty insurance on the Union/Locust Building throughout the term of this Lease. Tenant shall reimburse Landlord for its pro rata share of the cost of such insurance in accordance with the requirements of Section 5.

The parties hereby release each other, and their respective authorized representatives, from any and all claims or demands for damages, loss, expense or injury to any person or to the Premises, or to the improvements, fixtures and equipment, or personal property or other property of either Landlord or Tenant in, about or upon the Premises or adjoining property, as the case may be, which is caused by or results from risks insured against under any insurance policies carried by the parties and in force at the time of any such damage or for which either party is legally self-insured.

Section 8. Taxes

Tenant shall pay, Tenant's pro rata share of any real property taxes levied by any governmental agency against Landlord's Real Property in accordance with the requirements of Section 5. If this Lease expires prior to the determination of the amount of such taxes and assessments for the last fiscal year in which the Lease expiration occurs, Tenant shall nevertheless promptly pay such percentage following proper notice from Landlord appropriately prorated for the portion of the Lease term that falls within such last fiscal year. Tenant shall be liable for all taxes levied against any personal property or trade fixtures placed by Tenant in or about the Premises. Tenant shall be responsible for payment of any business, gross receipts or similar tax or charge and any penalties and interest thereon imposed by any governmental agency as a result of Tenant's use of the Premises.

Section 9. Default

Each of the following shall be an Event of Default under this Lease:

- (a) Tenant's failure to make any payment required by the provisions of this Lease, when due;
- (b) Tenant's failure within thirty (30) days after written notice to correct any breach or default of the other covenants, terms, or conditions of this Lease;
- (c) Tenant's vacation, abandonment, or surrender of the Premises prior to the end of the Term; and
- (d) All or substantially all of Tenant's assets are placed in the hands of a receiver or trustee, and that receivership or trusteeship continues for a period of thirty (30) days, or Tenant makes an assignment for the benefit of creditors or is adjudicated to be bankrupt, or Tenant institutes any proceedings under any state or federal bankruptcy act by which Tenant seeks to be adjudicated to be bankrupt or seeks to be discharged of debts, or any involuntary proceeding

is filed against Tenant under any bankruptcy laws, and Tenant consents or acquiesces by pleading or default.

Section 10. Remedies

In the event of any material default or breach by Tenant, Landlord may at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such default or breach, terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including, but not limited to expenses of reletting, reasonable attorney's fees, and any real estate commission actually paid. In addition Landlord shall be entitled to recover the amount by which the unpaid rent for the balance of the Lease term exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided. Unpaid installments of rent or other sums shall bear interest from the date due at the rate of ten percent (10%) per annum. In the event Tenant abandons the Premises, Landlord shall have the option of retaking possession of the Premises and recovering from Tenant the amount specified in this Section or pursuing any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the State of California.

Section 11. Maintenance and Repairs

Tenant acknowledges that the Premises are in good and safe condition and agrees to maintain the Premises in good and safe condition, including (without limitation) all interior surfaces of walls, windows, plate glass, doors, floors, and ceilings, and all fixtures or equipment installed by Tenant. Tenant agrees to make, at tenant's sole cost and expense, all

non-structural repairs to the interior of the Premises (e.g., leaking faucets, backed-up toilets, faulty light fixtures), and all repairs necessitated by Tenant's negligence or intentional conduct. Tenant promises to surrender the Premises at termination of this Lease in the same condition as received, except for normal wear and tear and changes authorized by Landlord. In addition, with reference to major capital repairs or improvements necessary to benefit or maintain the entire Union/Locust Building such as roof or HVAC system repair or replacement (but excluding repair or replacement of the building's photovoltaic solar energy system for which Landlord shall be solely responsible) Tenant will contribute to any such repair or replacement on a pro rata basis using the contribution percentage then in effect pursuant to Section 5 of this Lease or another percentage negotiated by the Landlord and Tenant at the time of repair or replacement. Tenant hereby waives the provisions of Sections 1941 and 1942 of the Civil Code of California and all rights to make repairs at the expense of Landlord as provided in Section 1942, or any other applicable law.

Section 12. Alterations

Tenant shall not make any alterations, additions, or improvements to the Premises without the prior written consent of Landlord.

Section 13. Fixtures and Equipment

Tenant may install and maintain its trade fixtures on the Premises, provided that such fixtures, by reason of the manner in which they are affixed, do not become an integral part of the building or Premises. All Tenant's work shall be undertaken and completed in a good and workmanlike manner, and Tenant shall obtain all necessary governmental permits, licenses and approvals with respect thereto and shall fully comply with all governmental statutes, ordinances, rules and regulations pertaining thereto including, but not limited to, laws or regulations relating to the accessibility or usability of the Premises for disabled persons.

Tenant, if not in default hereunder, may at any time or from time to time during the term hereof, or upon the expiration or termination of this Lease, alter or remove any such trade fixtures so installed by Tenant, and any damage to the Premises caused by such installation, alteration or removal of such trade fixtures shall be promptly repaired by Tenant at the expense of Tenant. If not so removed by Tenant within fifteen (15) days of the expiration or sooner termination of this Lease, said trade fixtures shall, at Landlord's option, become the property of Landlord, or Landlord, at its option, may remove said trade fixtures and any damage to the Premises caused by such installation, alteration or removal of such trade fixtures and the cost of such removal shall be paid by Tenant to Landlord upon demand.

Section 14. Estoppel Certificate

At any time within ten (10) days after request by Landlord, Tenant shall execute, acknowledge, and deliver to Landlord, without charge, a written statement certifying that this Lease is unmodified and in full force, or if there have been modifications, that it is in full force as modified. The statement shall also contain the date of commencement of this Lease, the dates to which the rent and any other charges have been paid in advance, and any other information Landlord reasonably requests. It is acknowledged by Tenant that any statement is intended to be delivered by Landlord to and relied upon by prospective purchasers, mortgagees, and deed of trust beneficiaries.

Section 15. Severability

The invalidity of any portion of this Lease shall not affect the remainder, and any invalid portion shall be deemed rewritten to make it valid so as to carry out as near as possible the expressed intention of the parties.

Section 16. Assignment or Subletting Prohibited

Landlord and Tenant acknowledge that the circumstances under which they are entering into this Lease are unique and that the key Lease terms, including but not limited to the rent term which authorizes the cessation of rent payments long before expiration of the Lease term and extension conclude, are not Lease terms that either party would agree to in a standard commercial lease agreement. Accordingly but for the nature of the relationship between Landlord and Tenant, i.e. both public entities charged with the obligation to deliver municipal and library services to their joint constituencies in an economically prudent and efficient manner, Landlord would not have entered into a lease agreement of this type with a party other than Tenant. Accordingly, Tenant agrees that under no circumstances shall it assign this Lease to a third party or sublet all or a portion of the Premises to a third party. If for any reason Tenant should terminate this Lease during the Lease term or any extension, this Lease, as of the date of termination, shall be deemed surrendered and Landlord shall have the right to immediately resume possession of the Premises and, in the exercise of its discretion, enter into a new lease agreement for the Premises with a third party of its choosing.

Section 17. Entry

Landlord reserves the right to enter the Premises at reasonable times upon reasonable notice to carry out any building management or business purpose in or about the building, without any abatement of rent. This shall include the right to enter the Premises for the purpose of showing prospective tenants the space. Additionally, Landlord reserves the right to enter the Premises at any time in the case of an emergency.

Section 18. Holding Over

This Lease shall terminate without further notice at the expiration of the Lease term. Any holding over shall not constitute a renewal or extension. If Tenant holds over after the term of this Lease, with the express or implied consent of Landlord, such tenancy shall be from month-to-month only and shall be at a monthly rent of \$12,000 indexed upward from July 1, 2008 by the Consumer Price Index for all Urban Consumers for the San Francisco-Oakland-San Jose area.

Section 19. Destruction and Condemnation

(a) In the event the Union/Locust Building or the Premises, shall be damaged by fire, earthquake, the elements or other casualty and that the cause of said damage is covered by insurance so that the damage thereto is such that the Premises or the building may be repaired, reconstructed or restored within a period of one hundred twenty (120) days, Landlord shall promptly commence the work of repair, reconstruction and restoration, and shall diligently prosecute the same to completion. During this period of time, this Lease shall continue in full force and effect. If insurance proceeds are not sufficient to fully pay for the repairs, reconstruction or restoration, Landlord shall notify Tenant in writing of same and Tenant shall have the option to pay its pro rata share the cost of said repairs, reconstruction or restoration over and above the available insurance proceeds. Tenant hereby waives any rights it may have under sections 1932.2 and 1933.4 of the Civil Code.

(b) If the Premises are condemned or transferred in lieu of condemnation during the term of the Lease, this Lease shall automatically terminate. In any taking or transfer, Tenant shall not be entitled to share in any portion of the award, and Tenant expressly waives any right or claim to any part of the award. Tenant shall, however, have the right to claim and recover, from the condemning authority only, but not from Landlord, any amounts necessary to

reimburse Tenant for the cost of removing stock and fixtures and any amounts necessary to relocate Tenant.

(c) If a portion of the Premises is condemned or transferred in lieu of condemnation during the term of the Lease, this Lease shall continue in full force and effect with a proportionate reduction in rent; provided, however, Tenant shall be entitled to terminate this Lease by giving written notice to Landlord within thirty (30) days of the taking or transfer if the taking or transfer will materially impact Tenant's ability to conduct its business on the Premises.

Section 20. Indemnity

Tenant agrees to and shall defend and indemnify Landlord against all claims, liability (including without limitation, active or passive negligence), loss and expense by reason of injury to person or property, or both, including, without limitation, injury to the person or property of Tenant, its agents, officers, employees, licensees or invitees arising out of the condition of the Premises or any portion thereof over which Tenant has control and a duty to repair and maintain under the terms of this Lease; provided, however, that this covenant shall not apply to injury to person or property resulting from acts of Landlord, its agents or employees while in or on the Premises. Landlord shall hold Tenant harmless from all damages arising out of acts of Landlord, its agents or employees while in or about the Premises, or arising out of any obligation that Landlord has under this Lease. A party's obligation to indemnify under this paragraph shall be limited to the sum that exceeds that amount of insurance proceeds received by the party being indemnified.

Section 21. Landlord's Right to Perform for Tenant

If Tenant fails to perform any obligation under this Lease, Landlord shall be entitled to make reasonable expenditures to cause proper performance on Tenant's behalf and at Tenant's expense, and Tenant promises to reimburse Landlord for any expenditures within ten (10)

days after written notice from Landlord requesting reimbursement. Failure of Tenant to make the reimbursement shall be deemed to be a default of the same type as a failure to pay an installment of rent when due. All obligations of Tenant to pay money are payable without abatement, deduction, or offset of any kind.

Section 22. Notices

Any notice required to be given pursuant to this Agreement shall be given in writing to the other party and delivered either personally, sent by overnight courier, sent by facsimile transmission (with the original forwarded by other method) or by depositing the same in the United States postal service, registered or certified mail, return receipt requested, with the postage prepaid, addressed to the parties as follows:

If to Landlord:

City of Santa Cruz
Attention: City Manager
809 Center Street
Santa Cruz, CA 95060

If to Tenant:

Santa Cruz City/County Library System
Attention: Director of Libraries
117 Union Street
Santa Cruz, CA 95060

Any notice delivered by mail shall be deemed delivered forty-eight (48) hours after deposit in the United States postal service mail. The address to which any notice is to be delivered may be changed by either party through compliance with the provisions of this paragraph.

Section 23. Attorney Fees

In the event suit is brought to enforce or interpret any part of this Agreement, the prevailing party shall be entitled to recover as an element of its costs of suit, and not as damages, a reasonable attorney's fee to be fixed by the Court. The "prevailing party" shall be the party

who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment. A party not entitled to recover its costs shall not recover attorney's fees. No sum for attorney's fees shall be counted in calculating the amount of a judgment for purposes of determining whether a party is entitled to recover its costs or attorney's fees.

Section 24. Titles

The titles or headings to paragraphs shall have no effect on interpretation of provisions.

Section 25. Successors

The provisions of this Lease shall apply to and bind the heirs, successors, and assigns of the parties.

Section 26. Waiver

The failure of Landlord to enforce any provision of this Lease, no matter how frequently or for how long said failure to enforce continues, shall not be deemed a waiver for any purpose.

Section 27. Entire Agreement

This Lease shall constitute the entire agreement of the parties, and may be modified only by a writing signed by the parties.

Section 28. Time of the Essence

Time is of the essence in the performance of Tenant's obligations under this Lease.

Section 29. Subordination

Tenant agrees that this Lease shall be subject to any mortgage, trust deed or like encumbrance heretofore or hereafter placed upon said Premises by Landlord or its successors in interest to secure the payments of monies loaned, interest thereon and other obligations. Tenant also agrees to promptly execute and deliver to Landlord from time to time, as requested by Landlord, an offset statement or estoppel certificate containing such

facts as are within the knowledge of or are available to Tenant pertaining to this Lease, as a purchaser of the leased property or a lender may reasonably require if said statement is prepared for signing by Landlord. Failure to deliver the executed offset statement or estoppel certificate to Landlord within ten (10) days from receipt of same, shall be conclusive upon Tenant for the benefit of the party requesting the statement or certificate, or his successor, that this Lease is in full force and effect and has not been modified except as may be represented by Landlord in the statement or certificate delivered to Tenant.

Section 30. Hazardous Materials

(a) As used in this Lease, the term "hazardous materials" shall mean any substance or material which has been determined by the State of California, the federal government, the City of Santa Cruz, or any agency of said governments, to be capable of posing a risk of injury to health, safety and property including, but not limited to, all of those materials and substances designated as hazardous or toxic by the Environmental Protection Agency, the California Water Quality Control Board, the U. S. Department of Labor, the California Department of Industrial Relations, the Department of Transportation, the Department of Agriculture, the Consumer Products Safety Commission, the Department of Health, Education & Welfare, the Food & Drug Administration or any other governmental agency now or hereafter authorized to regulate materials and substances in the environment. Without limiting the generality of the foregoing, the term "hazardous materials" shall include all of those materials and substances defined as "toxic materials" in Sections 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30, as the same may be amended from time to time.

(b) Tenant shall promptly comply with all laws related to hazardous materials, including any and all required monitoring and record keeping, and any orders of a governmental authority

requiring the cleanup and removal of hazardous materials from the Premises. If the Premises, or any part thereof (including the soil, surface water, ground water or the air in or about the Premises), becomes contaminated by any hazardous material through any act or omission of Tenant, its agents, employees, or invitees, Tenant shall promptly at its sole cost take all action necessary to clean up and remove such contamination and restore the Premises to the condition existing immediately prior to the existence of such hazardous material in or about the Premises. Tenant's obligations under this paragraph shall survive Lease termination. Tenant shall immediately notify Landlord in writing if Tenant causes or permits any hazardous material to be used or kept in or about the Premises or knows or has reasonable cause to believe that any hazardous material has come to be located in or about the Premises or discovers the existence of any hazardous material in or about the Premises. Tenant shall be solely responsible for the cost of any required cleanup and removal of hazardous materials and/or toxic wastes which have been placed or left upon the Premises by Tenant after the date of execution of this Lease.

(c) Tenant shall indemnify Landlord and Landlord's successors and assigns against and hold them harmless from any and all claims, demands, liabilities, damages, including punitive damages, costs and expense, including reasonable attorney's fees made by a federal, state or local governmental agency arising out of or in any way connected with the environmental condition of the Premises through any act or omission of Tenant, its agents, employees, or invitees, including, but not limited to, claims for additional cleanup of the Premises.

Section 31. Governing Law

This Lease shall be governed by and construed in accordance with California law.

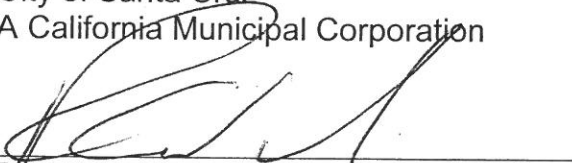
Section 32. Liens

Tenant shall keep the Premises and building and the property on which the Premises are situated, free of any liens arising out of work performed, materials furnished or obligations incurred by Tenant. Tenant shall indemnify, hold harmless, and defend Landlord from any claims, liens, attachments, encumbrances and work performed or materials furnished by or at the direction of Tenant relating to the Premises.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease the date first written above.

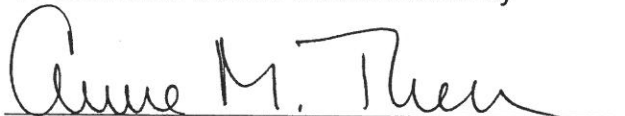
Landlord:

City of Santa Cruz
A California Municipal Corporation


By: Richard C. Wilson, City Manager

Tenant:

Santa Cruz City/County Library System,
A California Joint Powers Authority


By: Anne Turner, Director of Libraries

Approved as to Form:

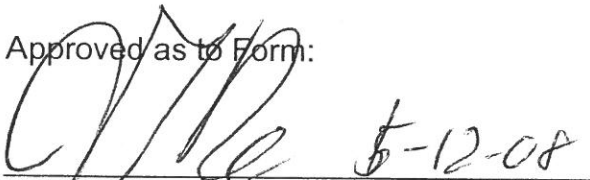

John G. Barisone, City Attorney

Exhibit B

Debt Schedule for Union Locust				
Fiscal Year	Total Debt Service	Capitalized Interest	Lease Payments	
			Library 2/3	Monthly
2008	162,113.33	162,113.33		
2009 Interest	151,981.25	75,990.63	50,662.95	
2009	276,981.25		184,663.40	
Total for FY 09	428,962.50	75,990.63	235,326.35	19,610.53
2010	428,962.50		285,989.30	23,832.44
2011	428,762.50		285,855.96	23,821.33
2012	428,362.50		285,589.28	23,799.11
2013	427,762.50		285,189.26	23,765.77
2014	426,962.25		284,655.73	23,721.31
2015	425,962.50		283,989.20	23,665.77
2016	429,762.50		286,522.66	23,876.89
2017	428,162.50		285,455.94	23,787.99
2018	426,362.50		284,255.88	23,687.99
2019	429,362.50		286,255.98	23,854.66
2020	426,962.50		284,655.90	23,721.32
2021	429,362.50		286,255.98	23,854.66
2022	426,362.50		284,255.88	23,687.99
2023	428,162.50		285,455.94	23,787.99
2024	429,293.76		286,210.15	23,850.85
2025	425,012.50		283,355.83	23,612.99
2026	425,525.00		283,697.52	23,641.46
2027	425,325.00		283,564.18	23,630.35
2028	424,700.00		283,147.49	23,595.62
2029	428,650.00		285,780.96	23,815.08
2030	426,275.00		284,197.54	23,683.13
2031	428,450.00		285,647.62	23,803.97
2032	424,950.00		283,314.17	23,609.51
2033	466,000.00		310,682.20	25,890.18
2034	462,750.00		308,515.43	25,709.62
2035	468,750.00		312,515.63	26,042.97
2036	468,500.00		312,348.95	26,029.08
2037	467,250.00		311,515.58	25,959.63
	12,753,781.84			
5/16/2008				