

BEST BEST & KRIEGER LLP

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March 5, 2007

Mayor and City Council
City of Redlands
35 Cajon Street
Redlands, California

Re: Agreement for Bond Counsel and Disclosure Counsel Services for 2007
Pension Obligation Bonds

Ladies and Gentlemen:

This letter sets forth our understanding of our agreement to provide bond counsel and disclosure counsel services in connection with the proposed issuance by the City of Redlands (the "City") of its pension obligation funding bonds to finance the City's unfunded accrued actuarial liability to the California Public Employees Retirement System ("PERS"). The firm of Best Best & Krieger LLP will serve as bond counsel and disclosure counsel on this financing and proposes to perform the following services on the basis set forth in this letter.

We will confer and consult with City staff and the City's Financial Consultant and Underwriter on all matters relating to the financing including participation in the review and selection of appropriate financing methods. We will assist the City in identifying the most advantageous method of financing based upon our experience and we will attend all meetings of City's staff and consultants at which financing methods are to be discussed and analyzed for successful completion of the financing.

Our bond counsel services will include the preparation of all resolutions, notices, a bond indenture, bond form and other documents required in the proceedings. Our disclosure counsel services will consist of the preparation and review of the official statement, continuing disclosure agreement and bond purchase contract. We will also attend meetings at which action in connection with the proceedings is to be taken.

Our services will also include commencing a validation action under Section 860 of the California Code of Civil Procedure in San Bernardino County Superior Court with respect to the proposed issuance of the Bonds, in order to validate the Bonds and the use of the proceeds for the repayment of the City's obligations to PERS as legal, valid and binding obligations of the City.

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Subject to completion of the financing to our satisfaction, Best Best & Krieger LLP will issue its approving legal opinion to the purchasers of the Bonds to the effect that all proceedings have been lawfully undertaken for the authorization, issuance, sale and delivery of the Bonds and that interest on the Bonds is exempt from State of California personal income taxation. (Interest on the Bonds will be taxable for federal income tax purposes). We will also issue appropriate supplemental opinions and certificates as may be necessary or appropriate.

Our fees for the foregoing bond counsel and disclosure counsel services and the validation action will be \$97,000, assuming a bond issue of approximately \$28,000,000 to \$30,000,000.

The above fees will be payable only upon completion and sale of the Bonds from the proceeds of the Bonds, and not otherwise. If other services are requested by the City which are not within the scope of those outlined above, they will be performed on a time basis at the hourly rates of the attorneys involved. In the event this financing is not completed for any reason, the City will have no liability for any fees or costs incurred by our firm with respect to the financing.

In addition to the above bond counsel fees, we would expect to be reimbursed by the City for out-of-pocket expenses incurred by us on behalf of the City, such as long distance telephone calls, messenger and courier services, travel at the request of appropriate City officials, duplicating and the like. Our expenses also will be payable out of proceeds of the Bonds. We would not expect our expenses to exceed \$3,000.

If this arrangement is satisfactory to the City, please sign and return a copy of this letter to me.

Very truly yours,



Francis J. Baum
of BEST BEST & KRIEGER LLP

FJB:jcq

TERMS OF EMPLOYMENT APPROVED
THIS 7th DAY OF MARCH, 2007.



Authorized Officer, City of Redlands